DRAFT STATEMENT OF ACCOUNTS

2010/2011

REDCAR AND CLEVELAND BOROUGH COUNCIL

STATEMENT OF ACCOUNTS

2010/2011

CONTENTS

REDCAR AND CLEVELAND BOROUGH COUNCIL

EXPLANATORY FOREWORD

1. INTRODUCTION

This section provides an overview of the format of the Statement of Accounts. It also provides a summary of the key issues facing the Council during the 2010/2011 financial year and includes the outturn position on both revenue and capital spending, where this was spent and how it was financed. Finally, it provides some of the challenges facing the Council in the coming years.

The Statement of Accounts for the year ended 31st March 2011 is presented in the format laid down in the 'Code of Practice on Local Authority Accounting in the United Kingdom' – issued by the Accounting Standards Board framework for the preparation and presentation of financial statements. The Code is based on International Financial Reporting Standards (IFRS) which requires new accounting policies for 2010/2011 to be adopted.

Many technical financial and accounting terms are used in this statement and these are defined in the glossary which can be found from page 116 onwards.

2. STRUCTURE OF STATEMENT OF ACCOUNTS

The Council's Statement of Accounts for the year is set out on pages 15 to 114. The information and financial statements included are as follows: -

The Explanatory Foreword; the purpose of this Foreword is to act as a guide to the most significant matters impacting on the Council's finances. It gives an indication of where the Council's money comes from, what it is spent on and what services it provides as well as its financial position and assisting in its interpretation of the financial statements.

Statement of Responsibilities for the Statement of Accounts
This explains both the Council's and Chief Financial Officer's legal and professional responsibilities for the Statement of Accounts under Local Government legislation.

Statement of Accounting Policies
This explains the principles, bases, conventions and rules applied in preparing the figures in the accounts that are significant to the understanding of the financial statements and disclosure notes. Any changes in accounting policies between financial years have been clearly highlighted.

Movement in Reserves Statement
This statement shows the movement in the different reserves held by the Council over the year. This is analysed into usable reserves, those that can be applied to fund expenditure or to reduce taxation, and other unusable reserves.

Comprehensive Income and Expenditure Statement
This statement brings together both Income and Expenditure relating to all of the Council's services for the year and also shows how this is financed from local taxation, government grants and other income. This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded by taxation.

Balance Sheet
This is a statement of the financial position of the Council and shows the balances and reserves at its disposal, its long term indebtedness and the fixed and net current assets employed in its operations.

Cash Flow Statement
This statement shows the changes in cash and cash equivalents of the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cashflows as operating, investing and financing activities.

Notes to the Core Financial Statements
These notes provide further information on the more significant items in the Financial Statements.

Collection Fund
This shows the income and expenditure in relation to Council Tax and National Non-Domestic Rates and illustrates the way in which these have been distributed to both Precepting Authorities and the Council's own General Fund.

Group Accounts
The Council has relationships with numerous external bodies in the form of companies, partnerships and other public sector organisations. These relationships can lead to an increase in the assets, liabilities and financial risks facing the Council. Group accounts aim to measure the total financial exposure and show how these differ from its single entity position.

Auditors Opinion
The Council's records are inspected by an external auditor who is appointed by the Audit Commission. The auditor's major role is to provide an assurance that the information presented here represents a fair statement of the financial position of the Council and that systems and procedures are in place to record accurately the financial transactions of the Council and to protect its assets. This statement is only included after the end of September each year once the final audit opinion has been issued.

3. REVENUE SPENDING IN 2010/2011

Revenue expenditure is generally spent on items consumed within the year and is financed from the Council Tax, Government Grants and other income.

The revenue budget for 2010/11 was based on £6.500m of value for money savings for Service Directorates with a net budget requirement of £125.084m being set by Council. During the financial year 2010/2011, spending pressures began to emerge based on demand pressures for adults and children's social care and also other demand related services. In addition value for money targets were not being achieved. These financial pressures were offset in the second half of the financial year by a series of gate keeping events on salary and non-salary budgets. A number of corporate savings were also released including the revenue balance provision for shortfalls on value for money efficiencies, savings on capitalisation directions, there were also corporate savings in terms of business rates and revaluations, and savings on capital financing budgets.

In total £8.6m of service pressures were managed by an equivalent amount of corporate savings. The revised revenue budget incorporated a draw on revenue balances of £0.115m. The total net spending on the General Fund was £125.187m. This represents a contribution from balances of £0.103m; an under spend of £0.012m compared to the revised budget for the year.

The original budget, together with a comparison of the revised budget with actual expenditure by service directorate, is summarised below:

	Original Budget	Revised Budget	Actual Expend-iture	Variance	Capital Charges	Other Adjust-ments	TRUE variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive's	4,193	1,833	1,918	85	-	(138)	(53)
Corporate Resources	14,910	3,969	3,488	(481)	1,560	(1,192)	(113)
Area Management	34,515	35,970	43,067	7,097	(4,119)	(696)	2,282
Adult & Children's Services	61,714	76,044	91,716	15,672	(4,626)	(4,257)	6,789
Regeneration	12,881	13,440	17,640	4,200	(5,370)	865	(305)
Total Service Expenditure	128,213	131,256	157,829	26,573	(12,555)	(5,418)	8,600
Corporate Allocations	(3,129)	(6,172)	(32,642)	(26,470)	12,555	5,418	(8,497)
Net Council Expenditure	125,084	125,084	125,187	103	-	-	103

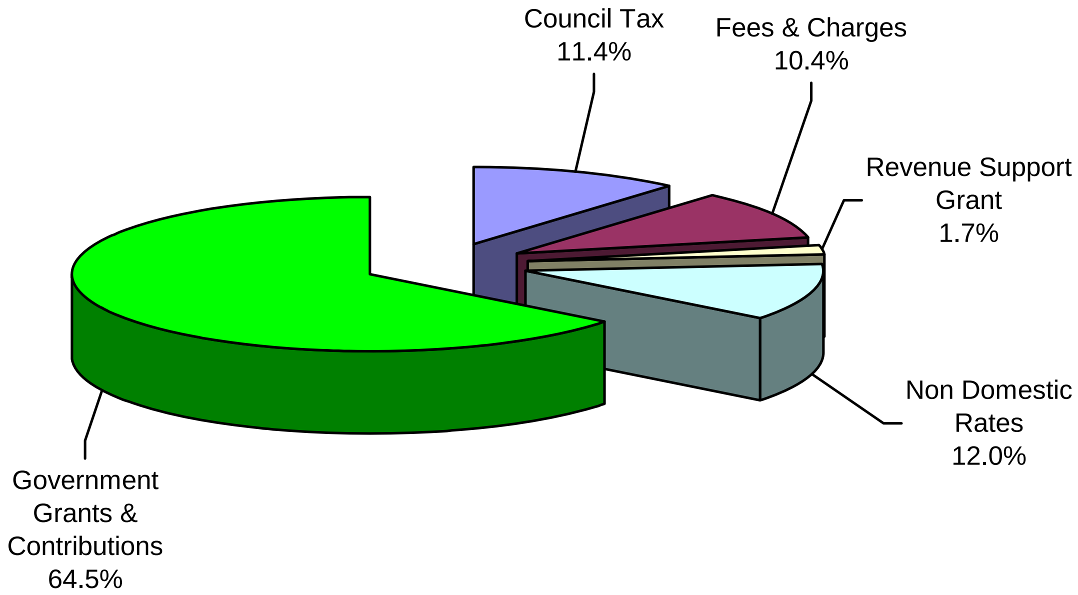
The General Fund working balance has reduced from £6.431m to £6.328m, compared to a revised budgeted call on reserves of £0.115m. This is a favourable variation of £0.012m in terms of the base assumptions made in the 2011/12 revenue budget.

	Revised Budget	Actual Position	Variance
	£'000	£'000	£'000
Balances as at 1 April 2010	6,431	6,431	-
Contribution (to)/from balances in year	(115)	(103)	12
Balances as at 31 March 2011	6,316	6,328	12
Balances as a % of Revised Net Council Budget	5.0%	5.0%	

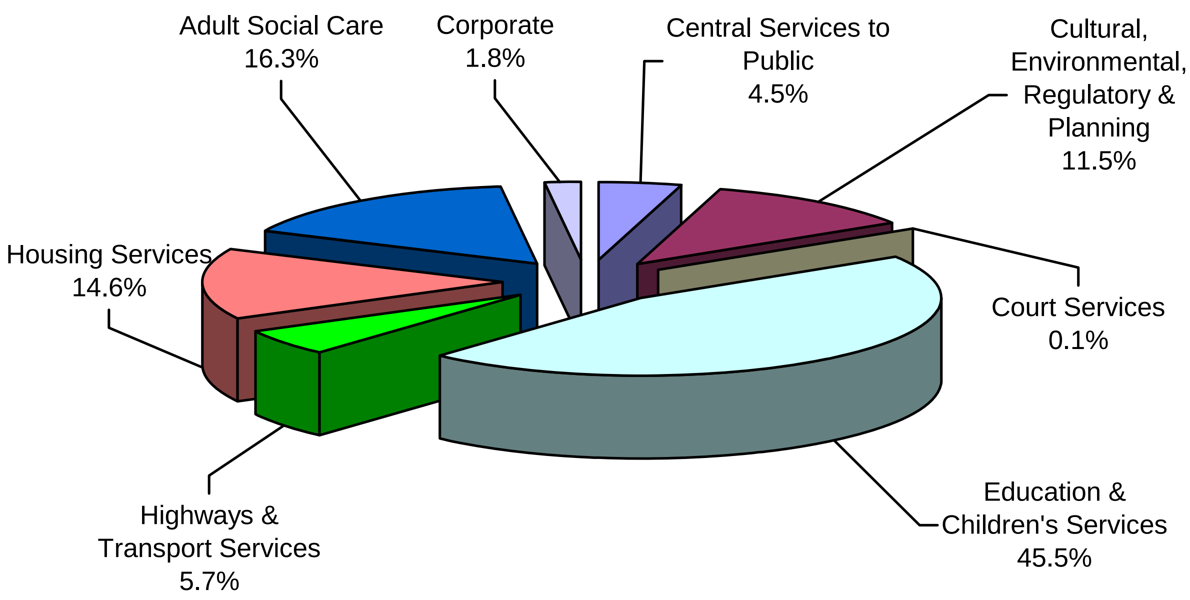
There are a significant number of variances from budget at directorate level. The Council produces its accounts in line with the IFRS Code of Practice which requires a range of technical adjustments to be undertaken on capital charges to revenue, retirement benefits and transfers to and from reserves. These accounting arrangements are not consistent with the funding raised by the Council and as a result the overspendings caused by these adjustments are reversed out through corporate allocations. This ensures that the impact on the Council's working balances is in line with the original budget requirement and funding.

The diagrams below show an analysis of the gross revenue spending of £362.142m as shown in the Comprehensive Income and Expenditure Statement. It is important to note that the contribution from the local community through the Council Tax represents just 11.4% of total income.

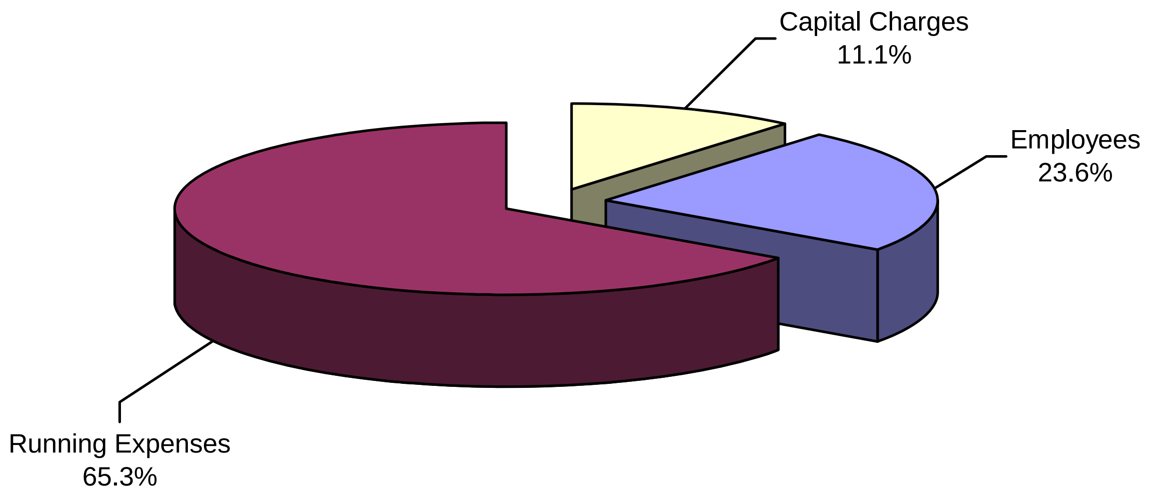
Where the money has come from



Where the money is spent by service



Where the money is spent by type of cost



4. CAPITAL SPENDING IN 2010/2011

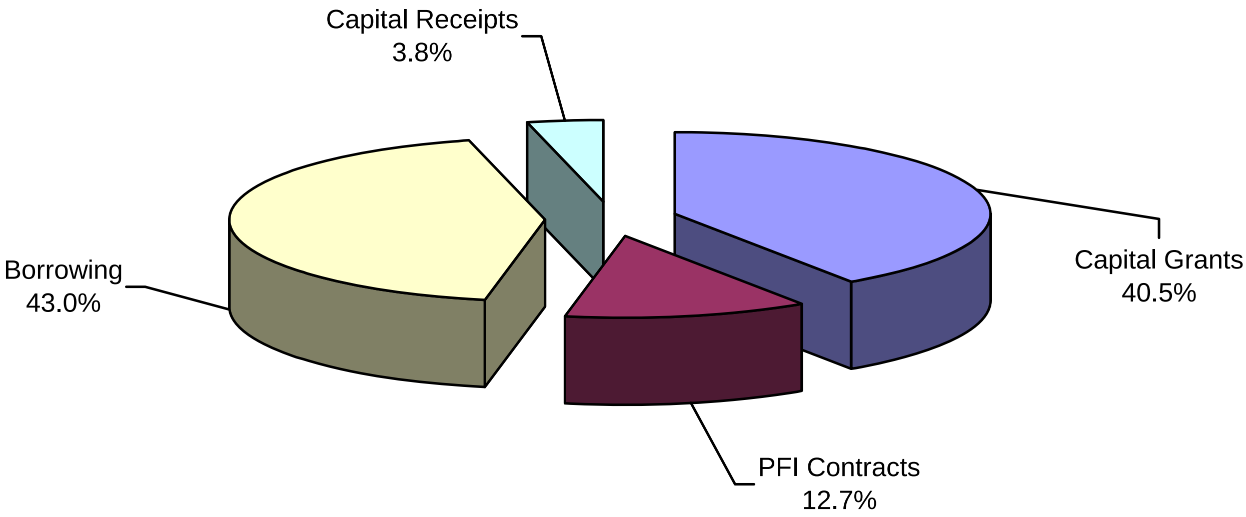
The capital programme is run in tandem with the revenue budget and spending on capital projects enhances the Council's assets and enables improved service delivery and also secures essential infrastructure. Capital expenditure can vary considerably between years depending on the projects ongoing. The programme is, however, financed in such a way as to even out the cost to council taxpayers and spread it over the life of the asset being used.

Capital expenditure during the year amounted to £35.013m (2009/2010 £35.783m). The main areas of capital expenditure were as follows:

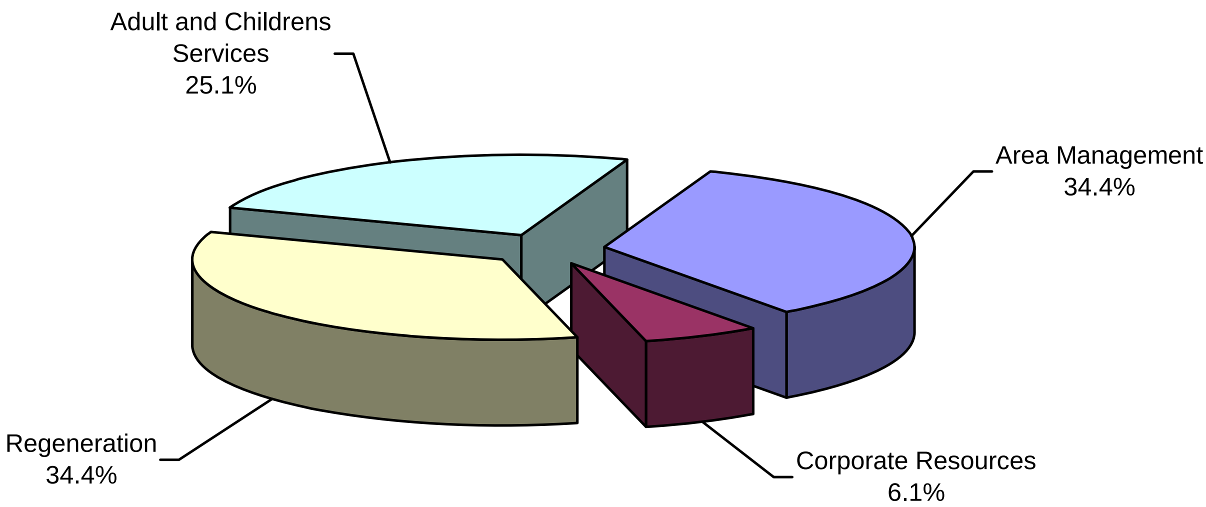
Scheme	2010/2011
	£'000
Roads and highways	8,429
Childrens and schools	7,154
Regeneration	5,714
Housing renewals	3,938
Vehicles	2,442
Pensions and redundancy	1,991
Adults with disabilities and Elderly care	1,811
Corporate improvement	1,014
Leisure and wellness	1,257
ICT	775
Coastal works	488
Total Capital Expenditure	35,013

The following diagrams show an analysis of the total capital expenditure of £35.013m:-

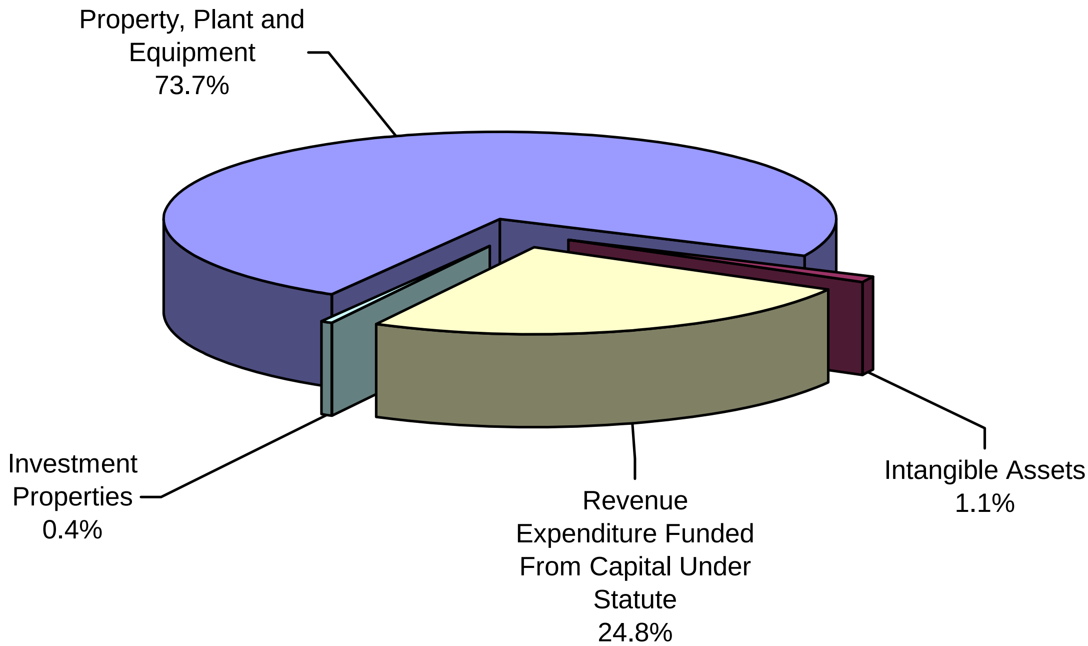
How we have funded capital expenditure



How we have spent our capital funds



What assets have we created



Further details relating to capital expenditure are shown in Note 14 and Note 16.

5. TREASURY MANAGEMENT ACTIVITIES

The Council borrows money to fund capital investment and operates within its limits set in accordance with the CIPFA Prudential Code for Capital Finance. As at 31 March 2011, the Council's Capital Finance Requirement was £237.7m

The Council's policy on borrowing is set out in its Treasury Management and Investment Strategy approved by the Council each year in March. The general policy is to undertake new borrowing at as competitive a rate as possible and to seek rescheduling opportunities to reduce the longer term interest payable where appropriate.

No external borrowing was taken to finance the capital programme in 2009/2010 as the Council looked to use internal cash balances to fund expenditure. This led to an increased need to borrow in 2010/2011 to fund capital expenditure. The Council believed that austerity measures taken by the new government were likely to impact on the Council's ability to borrow, either by the introduction of borrowing restrictions, or by changes to rates of borrowing. To mitigate that risk, the Council borrowed £10m at an average rate of 3.21% and an average life of 6.72 years in May 2010.

In October, the PWLB increased the borrowing rates to local authorities by around 1%. As interest rates are at an all time low, returns on investments are down. The Council therefore did not take on any more borrowing in 2010/2011, in order to minimise the cost of carry.

The Council invests its surplus cash balances on the money market in order to match the timing of both revenue and capital receipts to expenditure. These investments generated £0.450m worth of income to the Council during 2010/2011 which assisted the revenue budget.

During October 2008 and as a result of the global recession and problems within their national economy, several Icelandic banks went into administration. At the time the

Council had investments with two financial institutions, Heritable PLC (£4.000m) and Kaupthing, Singer and Friedlander Ltd (£2.000m).

Ongoing efforts to recover these investments are being co-ordinated by the Local Government Association on behalf of the 127 affected local authorities. To date, the Council has recovered £3.3m. Administrators' reports suggest that a further £1.7m is recoverable. Under statute, the Council is required to account for this loss in 2010/2011. As the Council has already put £1.000m of general reserves against this amount, the actual cost to the Council in 2010/2011 was £0.023m.

6. PENSIONS

The Council participates in the Local Government Pension Scheme, administered by Middlesbrough Council. This is reflected in the Balance Sheet, which includes a pension liability and pension reserve in respect of this scheme of £75.075m as at 31 March 2011. Although these pension liabilities decrease the overall level of reserves, they do not represent a reduction in the Council's cash reserves.

Whilst this pension liability suggests a significant shortfall between the forecast cost of future pensions and the current level of assets held in the fund, it should be noted that the fund assets are subject to fluctuations in value depending on the current state of the stock market. The Pension Scheme also has an investment strategy in place to address this funding deficit over a 20 year period, based on an appropriate level of employer's contributions producing a positive cash flow into the fund. The size of the deficit proportionally is not dissimilar to that being experienced by other local authorities.

7. COLLECTION FUND

The Council set a Band D Council Tax of £1,291.68 for 2010/2011, an increase of 2.5% over 2009/2010. The addition of the Police Authority and Fire Authority spending requirements resulted in a total Band D Council Tax of £1,543.49 for residents of the Borough in non-parish areas. Residents of areas with parish council responsibilities will pay marginally more than this depending on their own parish council tax amount.

The percentage of Council Tax collected in 2010/2011 was 96.5% (96.5% in 2009/2010).

8. ACCOUNTING POLICIES

The introduction of new accounting standards, International Financial Reporting Standards, has been adopted for 2010/2011. This is in accordance with central government regulations to apply these new standards originally applied within the private sector and now applied across all UK public sector bodies.

A phased approach to these new accounting standards has been applied over the preceding years with the adoption of standards on Financial Instruments in 2008/2009 and for 2009/2010 the revised treatment of private finance schemes.

IFRS requires financial statements to give a true and fair view of the financial position, financial performance and cashflows of the Council. Greater emphasis is placed upon the substance of transactions rather than the legal form and the qualitative aspects of the financial statements. These revised accounting standards have impacted upon the Council's accounts in a number of areas the most significant of which are as follows:

- accrual of short term accumulated employee benefits such as holiday pay;
- certain leases are now held on the balance sheet, this arises from a broader consideration of the substance of any lease type transaction

- the new term cash equivalent is to include cash and certain short term investments

- the reclassification of certain property and the treatment of revaluation gains on those properties as presented through the Comprehensive Income and Expenditure Statement

- the introduction of a category of current asset related to property called ‘Assets held for sale’

- the treatment of government capital grants which are now released to the Comprehensive Income and Expenditure Statement once the conditions of the grant are met rather than deferring the credit to match the life of the asset to which the grant relates.

- revenue grants are to be recognised within the Comprehensive Income and Expenditure Statement when the conditions of the grant are met and are not necessarily matched to expenditure.

IFRS applies retrospectively so opening balances have been adjusted including those at 1 April 2009 to ensure valid comparative figures between years.

Changes to the Statement of Accounts

A number of changes have been made to the format and presentation of the 2010/2011 Statement of Accounts.

The adoption of IFRS gives rise to a revised format of the Council’s accounts. A new financial statement ‘Movement In Reserves’ is introduced and combines the prior statement on the Movement in the General Fund Balance together with other reserve movements; the new Comprehensive Income and Expenditure Statement now incorporates the former Statement of Total Recognised Gains and Losses. Presentational changes have also been made to the Balance Sheet and Cashflow Statement.

The notes to the accounts have also been amended to reflect the requirements of IFRS; the main changes are as follows:

- Segment Reporting; a note is introduced to disclose information in a format that is based upon internal management reporting.

- Notes to the Movement in Reserves statement are presented within a different format, providing details of adjustments between accounting basis and funding under regulation

- Additional information is given on prior year comparators

- Fixed assets are now classified as non-current assets and their classifications are now more defined. The supporting notes to these asset categories have been amended accordingly

- Notes on leasing arrangements have been expanded

9. STRATEGIC PARTNERSHIPS

The Council has the following Partnerships:

Liberata UK Limited – commenced on 8 May 2003 with a duration of 10 years. During 2006/2007, the Council renegotiated a re-shaped Strategic Partnership agreement with Liberata UK Limited. The new agreement commenced on 1 September 2006.

McAlpine PLC / Carillion FM – commenced on 1 April 2004 with duration of 3 years for the provision of Highway Services. This contract was extended in 2007/2008 to provide coverage up to 31 March 2011. In March 2008 McAlpine PLC was subject to a take-over by Carillion FM Government Limited, to whom this contract has transferred. Following a competitive tender process during this financial year Carillion have been awarded the contract from 1 April 2011 for a further three years.

The Council is also the lead body for the Redcar and Cleveland Local Strategic Partnership which covers a number of other public and voluntary sector bodies. The LSP acts as a commissioning body for a number of partner related initiatives and is also the accountable body for Area Based Grant.

The Council has also just entered a shared service arrangement with Middlesbrough Council for the provision of Internal Audit Services from start of January 2011 acting as lead body.

10. PRIVATE FINANCE INITIATIVE

The Council has three Private Finance Agreements at the operational stage for office accommodation, schools and street lighting and is currently making or committed to make contractual payments under the three agreements of £12.845m in 2010/2011. This cost was offset in part by PFI grant of £7.123m. Where funding sources for the projects do not match the expenditure profile this is managed through the creation of a sinking fund, which is drawn on as and when required.

As mentioned earlier the accounting for these PFI schemes has changed significantly from 2009/2010.

11. LOOKING AHEAD TO 2011/2012 AND THE FUTURE

The Council faced significant challenges in setting the 2011/2012 revenue budget. The impact of the Comprehensive Spending Review in October 2010 and the subsequent local government finance settlement at the end of January 2011, has led to significant cuts in public sector funding. In addition demand for services, particularly Adult and Childrens Social Care, continues to increase.

The Council therefore needed to save £15.1m as part of the budget setting process. This has been achieved through a combination of business reviews (using assets, procurement, charging and partnerships more efficiently) £7.6m and the remaining £7.5m in service reviews.

The 2011/2012 budget is challenging and based on a number of assumptions. The risks associated with these assumptions have been addressed through the use of credible forecasts, the development of robust delivery plans, and the retention of a risk assessed level of balances. Progress against these plans will be closely monitored through regular budget monitoring activity.

Over the Medium Term Financial Plan covering 2011-2016 the Council needs to save an additional £10.5m. Plans are being formulated as to how these additional savings can be

made. The Medium Term Financial Plan has been developed on the basis of four key principles:

- Remaining focused on our priorities
- Protecting the vulnerable in the community
- Concentrating on the delivery of front line services
- Minimising the impact on job losses

It is critical that the plan is reviewed on an ongoing basis to ensure the Council is well positioned to respond to changing circumstances, and that it continues to underpin our priorities and ambitions.

The Council also has significant capital investment plans with £194.2m to be invested over the Medium Term Financial Plan period. The main focus is on the regeneration of the Borough through the Economic Regeneration Masterplan and specific renewal projects in Redcar, South Bank, Greater Eston and East Cleveland. This ambitious programme is funded from Government grant, partner contribution and prudential borrowing input by the Council.

12. OTHER SOURCES OF INFORMATION

This Statement of Accounts forms only one element of the Council's external financial reporting to stakeholders. Further information can be found in the following publications which are produced each year and are available on the Council's website **www.redcar-cleveland.gov.uk**

- Summary Statement of Accounts for 2010/2011
- Revenue Budget for 2011/2012
- Our Money 2011-2016
- Council Tax leaflet
- Annual Report

13. INSPECTION AND AUDIT OF THE ACCOUNTS

Under the Audit Commission Act 1998, members of the public have the right to inspect the Council's accounts and supporting documents and to question the auditor about, or make objections to, the matters contained in them. The times at which the accounts are deposited for inspection are advertised each year in the Evening Gazette.

The Council's external auditors are: -

Audit Commission
Lion Court
Hanzard Drive
Wynyard
TS22 5FD.

14. FURTHER INFORMATION

Further information about the Statement of Accounts is available from the Head of Corporate Financial Services, Redcar and Cleveland House, Kirkleatham Street, Redcar, TS10 1YA.

The Statement of Recommended Practice and the Best Value Accounting Code Of Practice are available from the Chartered Institute of Public Finance and Accountancy website at www.cipfa.org.uk.

ANNUAL GOVERNANCE STATEMENT 2010/2011

To be presented with the audited Statement of Accounts at the end of September 2011

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Head of Corporate Financial Services.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

Head of Corporate Financial Services' Responsibilities

The Head of Corporate Financial Services is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice).

In preparing this Statement of Accounts, the Head of Corporate Financial Services has:

- selected suitable accounting policies and then applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the Code of Practice.

The Head of Corporate Financial Services has also:

- kept proper accounting records which were up to date.
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby state that the Statement of Accounts presents a true and fair view of the financial position of the Authority as at 31 March 2011 and for its income and expenditure for the year ended 31 March 2011.

John Sampson, BA (Hons), PG Dip, FCCA
Head of Corporate Financial Services

Date: 30th June 2011

STATEMENT OF ACCOUNTING POLICIES 2010/2011

1. GENERAL

The Statement of Accounts summarises the Council's financial transactions for the 2010/2011 financial year and its financial position at the year ended 31 March 2011, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, 2010/2011: produced under International Financial Reporting Standards. It also complies with the Best Value Code of Accounting Practice which constitutes proper practice under Part IV of the Local Government and Housing Act 1989.

2. ESTIMATION TECHNIQUES

The methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.
Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period;

- different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider the debts as a whole rather than individual balances.

3. ACCRUALS OF INCOME & EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made and received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods and services.

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.

- Capital works are charged as expenditure when they are completed, before which they are carried as assets under construction on the Balance Sheet.

- Interest payable on borrowing and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debt will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

A couple of exceptions to this are periodic payments in respect of gas, electricity and telephone charges where amounts have not been accrued. However, the accounts do include the equivalent of a full year's expenditure in respect of these items.

4. **REVENUE**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Revenue is measured at the fair value of the consideration received or receivable except for a financial asset that is measured in accordance with financial instruments.

In most cases, the consideration receivable is in the form of cash and cash equivalents and the amount of revenue is the amount of cash and cash equivalents receivable. However, if payment is on deferred terms (ie beyond normal credit terms), the consideration receivable is recognised initially at the cash price equivalent (that is, the discounted amount). The difference between this amount and the total payments received is recognised as interest revenue in Surplus or Deficit on the Provision of Services.

5. **CASH AND CASH EQUIVALENTS**

Cash is cash in hand and deposits with any financial institution repayable without penalty on notice of not more than twenty-four hours. Cash and cash equivalents comprise cash in hand and investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Bank overdrafts which are repayable on demand and which form an integral part of the Council's cash management are also included as a component of cash and cash equivalents.

6. **PROPERTY PLANT AND EQUIPMENT**

Property, plant and equipment are tangible assets (assets with physical substance) that are held for use in the supply of goods and services, for rental to others or for administrative purposes and are expected to be used during more than one accounting period.

Recognition

The cost of recognition of an item of property, plant and equipment is recognised when it is probable that future economic benefits or service potential associated with the asset will flow to the Council and that the cost can be measured reliably.

Subsequent costs arising from day-to-day servicing of an asset (ie labour costs and consumables), commonly referred to as 'repairs and maintenance', are not recognised as property, plant and equipment because the expenditure does not add to the future economic benefits or service potential of the asset. Rather the expenditure maintains the asset's potential to deliver future economic benefits or service potential that it was expected to provide when originally acquired.

Where a component is replaced or restored (i.e. enhancements), the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out above are met.

The Council applies the following de minimis levels for the recognition of expenditure on the acquisition, creation or enhancement of property, plant and equipment:

	£'000
Land acquisition and building and development works	20
Vehicles, plant and equipment	10
Grants	10
IT Equipment	10
Items held by Schools	3

Measurement

An item of property, plant and equipment is initially measured at cost, comprising the purchase price and all expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequently, an item of property, plant and equipment is carried in the balance sheet using the following measurement bases:

- Land and buildings: Fair value (the amount that would be paid for land and buildings in their existing use);
- Items of a specialised nature (where no market-based evidence is available): Depreciated replacement cost;
- Infrastructure assets and community assets: Depreciated historical cost;
- Non-property assets with short useful lives and/or low values: Depreciated historical cost
- All other classes of property, plant and equipment: Fair value (the amount for which an asset could be exchanged in an arms-length transaction).
- Land and buildings are revalued at intervals of no more than five years. Professionally qualified valuers undertake valuations on a rolling basis.

Where the carrying amount of an item of property, plant and equipment is increased as a result of a revaluation, the increase is recognised in the Revaluation Reserve. This is the case unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, (i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset) as opposed to an impairment, the decrease is recognised in the Revaluation Reserve. This will be up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

Impairment

At the end of each reporting period, an assessment is made of whether there is any indication that an item of property, plant and equipment may be impaired. If there is indication of impairment, the recoverable amount of the asset is estimated to determine any impairment loss.

If there has been an impairment loss, the asset is written down to its recoverable amount. The impairment loss is charged to the Revaluation Reserve, to the extent that it does not exceed the amount in the Revaluation Reserve for the same asset and, thereafter, to the Surplus or Deficit on the Provision of Services.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the carrying amount that would have been determined had there been no initial impairment loss. Any excess of the impairment loss reversed above this carrying amount is charged to the Revaluation Reserve.

Depreciation

Depreciation applies to all items of property, plant and equipment whether held at historical cost or re-valued amount, with the exception of investment properties carried at fair value and land where it can be demonstrated that the asset has an unlimited useful life.

The depreciation charge is based on the depreciable amount allocated over an asset's useful life. The methods of depreciation that reflect the pattern in which the future economic benefits or service potential of different assets are expected to be consumed, are determined as follows:

- Land: No depreciation;

- Buildings: Straight-line allocation over the life of the property as estimated by the valuer;

- Vehicles, plant and equipment: Straight line allocation generally over 5 years unless specifically advised by the project officer;

- Infrastructure: Straight-line allocation over 40 years for footpaths, roads and bridges, 20 years for street lighting and 10 years for traffic signs and bus shelters;

- Community assets: No depreciation as generally in the form of land. The valuer assesses the useful life of any building included in this category.

- Items of property, plant and equipment are not depreciated until they become available for use (i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation ceases at the earlier of the date that items of property, plant and equipment are classified as held for sale and the date they are derecognised.

- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

- The residual value of an item of property, plant and equipment, their useful life and depreciation methods are to be reviewed at least at each financial year-end. If expectations differ from previous reviews or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the change is accounted for as a change in accounting estimate.

Componentisation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.

To be separately identified as a component, an element of an asset must meet the following criteria:

- The asset must have a value in excess of £500,000; and

- The component should have a cost of at least 20% of the cost of the overall asset and
- have a materially different useful life (at least 20% different) and/or
- have a different depreciation method that materially affects the amount charged.

Where individual assets are beneath the de minimis threshold but collectively are above, they should be considered for componentisation where they are generally treated together elsewhere.

Where components are identified, they will be set up separately in the asset register and have individual values, useful lives and depreciation methods recorded.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition is the difference between the net disposal proceeds (if any) and the asset's carrying amount and is included in the Surplus or Deficit on the Provision of Services.

7. INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical substance. It is controlled by the Council, as a result of past events, and future economic or service benefits are expected to flow from the intangible asset to the Council. The most common class of intangible asset in local authorities is computer software.

An intangible asset is measured initially at cost. After initial recognition, an intangible asset may be carried at a revalued amount where its fair value can be determined by reference to an active market. Otherwise, an intangible asset will be carried at historical cost less any accumulated amortisation and any accumulated impairment loss.

The depreciable amount of an intangible asset with a finite useful life is amortised on a systematic basis over its useful life, beginning when the intangible asset is available for use. The amortisation method used reflects the expected pattern of use of the economic benefits. If the pattern cannot be determined reliably, the straight-line method is used. The amortisation period and method is reviewed at least at the end of each reporting period.

An intangible asset with an indefinite life is not to be amortised, but is tested for impairment annually, and whenever there is an indication the asset may be impaired. The useful life of the asset is to be reviewed annually.

8. EXPENDITURE FOR CAPITAL PURPOSES THAT DOES NOT RELATE TO FIXED ASSETS

Expenditure for capital purposes that does not relate to fixed assets may be capitalised under statutory provisions although it does not result in the creation of tangible fixed assets. Such expenditure (e.g. grants to outside bodies) incurred during the year has been written off as expenditure to the relevant service revenue account. Where the Council has determined to meet the cost of the expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out

the amounts charged in the statement of movement on the General Fund Balance so there is no impact on the level of council tax.

9. **CHARGES TO REVENUE FOR FIXED ASSETS**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service.
- Capital expenditure that is deemed not to enhance the value of the fixed asset.
- Revenue Expenditure Funded from Capital Under Statute.

The Council is not required to raise council tax to cover these amounts. However, it is required to make an annual provision from revenue, which is known as the minimum revenue provision (MRP), to contribute towards the reduction in its overall borrowing requirement. These capital charges are therefore replaced by revenue provisions in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account.

Effective from 31 March 2008, statutory changes were made to the calculation of MRP. There is now a simple duty for the Council each year to make an amount of MRP which it considers to be prudent. The Council approved that the policy for making MRP in 2010/2011, from the options available, should be based on the Regulatory Method. This means the Council has been able to use the formulae in the previous regulations, for 2010/2011, (equal to at least 4% of the amount of capital expenditure financed by borrowing which is measured by the capital financing requirement).

Where assets are funded from Prudential Borrowing, the Council has determined that it will make a prudent MRP provision based on the useful life of the asset funded.

10. **INVESTMENT PROPERTY**

An investment property is one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property and is accounted for as property, plant and equipment.

An investment property is measured initially at cost. After initial recognition, investment property is measured at fair value. A gain or loss arising from a change in the fair value of investment property is recognised in Surplus or Deficit on the Provision of Services for the period in which it arises. The fair property reflects market conditions at the Balance Sheet date. This means that a periodic revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at the Balance Sheet date. An investment property held at fair value is not depreciated.

11. **NON-CURRENT ASSETS HELD FOR SALE**

A non-current asset is classified as held for sale if the asset's carrying amount will be recovered principally through a sale transaction rather than through continued use and meets the following criteria:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated;
- The asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value;
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A non-current asset classified as held for sale is measured at the lower of its carrying value and fair value less costs to sell at initial reclassification and at the end of each reporting period**.**

12. **CAPITAL RECEIPTS**

Capital Receipts from the disposal of assets are invested temporarily until such time as they are used to finance capital expenditure or to repay debt. Interest on capital receipts is credited to the General Fund.

13. **INVENTORIES**

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories comprises all costs of purchase, costs of
Conversion and other costs incurred in bringing the inventories to their present location and condition.

14. **COST OF SUPPORT SERVICES**

All budgeted costs of support services have been fully allocated to Directorates. A comparison of actual costs and budgeted costs was undertaken and the variance identified has been allocated back to Directorates. The bases of allocation used for the main cost of support services are either on number of transactions, time or employee number basis depending on the nature of the service involved.

15. **PROVISIONS**

A provision is recognised when:

- there is a present obligation (legal or constructive) as a result of a past event;

- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

16. TRUST FUNDS

Trust Funds administered by the Council are included in the Balance Sheet. However ownership does not vest with the Council but forms part of the Council's stewardship role. The amounts involved are immaterial and as a result have not been adjusted. The extent and nature of Trust Funds is, however, disclosed at Note 10. The amounts are calculated using the interest earned by the Council (1.05% for 2010/2011).

17. RESERVES

The Council sets aside specific amounts as Reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service reserve account in that year to score against the Net Cost of Services in the Comprehensive Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance resulting in no charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting process for tangible fixed assets and retirement benefits and that does not represent usable resources for the Council. These reserves are explained in the relevant policies elsewhere in this statement.

18. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term financial instrument' covers both financial assets and financial liabilities.

Typical financial assets include bank deposits, trade receivables and other receivables, loans receivable and advances. Typical financial liabilities include trade payables and other payables, borrowings and financial guarantees.

Recognition

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of the instrument.

In the case of a financial asset, the Council becomes a party to the contractual provisions when it becomes committed to the purchase (i.e. the contract date) and is usually referred

to as the '*trade date'*. The sale of a financial asset is also recognised on the trade date. Trade receivables are an exception. The receivable is not recognised when the Council becomes committed to supply the good or service but when the ordered goods or services have been delivered or rendered.

In the case of a financial liability, the Council becomes a party to the contractual provisions when one of the parties has performed their obligation under the financial instrument. For example a loan debt contract is recognised when the cash is received rather than when the Council becomes committed to the loan agreement. A trade payable is recognised when the ordered goods or services have been received.

Embedded derivatives

Some financial instruments are hybrid, in that for accounting purposes they are considered to comprise a non-derivative host contract that contains an embedded derivative. An embedded derivative causes some or all of the cash flows that would otherwise be required by the contract to be modified. Some embedded derivatives are required to be separated from the host contract and accounted for as derivatives. For example, when the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Other embedded derivatives are not required to be separated from the host contract and the instrument should be accounted for as a single financial instrument**.**

Classification

The accounting treatment of a financial instrument subsequent to initial recognition depends on its classification on initial recognition.

Financial assets are classified into one of the following categories:

- at fair value through profit or loss;
- loans and receivables which have fixed or determinable payments, and are not quoted in an active market; and
- available for sale (the residual category for financial assets that are not required to be classified as at fair value through profit or loss or as loans and receivables).

Financial liabilities are classified into one of two categories:

- fair value through profit or loss; and
- amortised cost (the residual category for financial liabilities).

Measurement

Financial assets and financial liabilities are measured initially at fair value less, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include internal administrative costs.

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Usually the best evidence of fair value is the transaction price (i.e. the consideration), and unless the transaction was not at arm's-length, this is the value used. If the transaction is not based on market terms, a valuation technique is used.

Loans and receivables
After initial recognition, the carrying amount of loans and receivables and the interest income receivable are measured at amortised cost using the effective interest rate method. Short-duration receivables with no stated interest rate are measured at original invoice amount.

Available-for-sale financial assets
After initial recognition the carrying amount of an available-for-sale financial asset is measured at its fair value, without any deduction for transaction costs that would be incurred on sale or other disposal.

Amortised cost using the effective interest rate method
Amortised cost using the effective interest method can apply to both financial assets (e.g. loans and receivables) and financial liabilities.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

Impairment
A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the asset. An expected loss as a result of future events, no matter how likely, is not recognised.

At the end of each reporting period an assessment is made of whether there is objective evidence that any financial asset may be impaired. An assessment is first made of whether evidence of impairment exists individually for financial assets that are individually significant. Then an assessment of impairment is made individually or collectively for financial assets that are not individually significant.

Derecognition
Derecognition is the term used for the removal of an asset or liability from the Balance Sheet.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset have expired or have been transferred. A financial liability is derecognised when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

19. GRANTS AND CONTRIBUTIONS

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition that the Council has not satisfied. In this case they will be recognised as a deferred income entry in the balance sheet before recognition as income.

20. EMPLOYEE BENEFITS

Benefits payable during employment

Benefits payable during employment cover short-term employee benefits and other employee benefits (other than termination benefits) that are due to be settled within 12 months or more after the end of the reporting period.

Short-term employee benefits include wages, salaries and social security contributions, compensated absences and non-monetary benefits.

Compensated absences are periods during which an employee does not provide services to the employer, but benefits continue to be paid. Compensated absences may be accumulating or non-accumulating.

Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. Annual leave, flexi-time and time in lieu are usually accumulating. Accumulating absences may be either vesting or non-vesting. Where vesting, employees who leave are entitled to a cash payment in respect of any unused entitlement. Where non-vesting, benefits lapse if an employee leaves before the vesting date.

Non-accumulating absences are those that cannot be carried forward for use in future periods if the current period entitlement is not used in full. Sick leave, maternity leave, paternity leave and jury service will usually be non-accumulating. Non-accumulating compensated absences are recognised when the absence occurs.

The cost of providing non-monetary benefits (i.e. benefits in kind), including housing, cars and free or subsidised goods or services, is recognised according to the same principles as benefits payable in cash. The amount recognised as a liability and an expense is the cost to the employer of providing the benefit.

Termination benefits

Termination benefits are dealt with separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service. Termination benefits are payable as a result of either:

a) an employer's decision to terminate an employee's employment before the normal retirement date, or

b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Termination benefits are often lump-sum payments, but also include:

a) enhancement of retirement benefits, and

b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the organisation.

Voluntary early retirement benefits under scheme rules are not termination benefits since such benefits are a right of all scheme members. They are accounted for as post-employment benefits rather than termination benefits.

Post-employment benefits

Employees of the Council are members of the Local Government Pensions Scheme which is accounted for as a defined benefit plan.

Estimating the benefit that employees have earned:
Actuarial techniques are used to:

a) Estimate the variables that will determine the ultimate cost of providing post-employment benefits. The main actuarial assumptions for pension benefits comprise demographic assumptions such as mortality, employee turnover and expected early retirement where the employee has the right under the plan rules and financial assumptions such as the discount rate and salary and benefit levels.

b) Determine how much benefit is attributable to the current and prior periods. Benefits are attributed to periods of service in accordance with the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, benefit is attributed on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits.

Actuarial assumptions are unbiased and mutually compatible. They are unbiased if they are neither imprudent nor excessively conservative. Financial assumptions are based on market expectations at the end of the reporting period for the period over which the obligations are to be settled.

Discounting the benefit to determine the present value of the defined benefit obligation
The projected unit credit method is used to determine the present value of the Council's defined benefit obligation and the related current service cost and, where applicable, past service cost. This method views each period of service as giving rise to an additional unit of benefit entitlement, with each unit being measured separately to build up the obligation.

The rate used to discount post-employment benefit obligations is determined by reference to market yields at the Balance Sheet date on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. The interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation.

Determining the fair value of any plan assets
The fair value of any plan assets is deducted in determining the defined benefit liability. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets. Plan assets exclude unpaid contributions due from the Council to the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

Determining the amount of actuarial gains and losses
Actuarial gains and losses are experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

The movement in actuarial gains and losses for the year is recognised in the Pension Reserve.

<u>Where a plan has been changed, determining the resulting past service cost</u>
Past service cost usually arises when the benefits payable for past service under an existing defined benefit plan are changed. Past service cost is measured as the change in the liability resulting from the amendment. Where the amendment vests immediately, the past service costs are recognised immediately regardless of the fact that the cost refers to employee service in previous periods. Sometimes there is a vesting period, in which case the past service cost is amortised on a straight-line basis over the average period until the benefits become vested. The amortisation schedule for past service cost is fixed when the amendment is introduced and is not to be revised unless there is a curtailment or settlement.

Where benefits payable under an existing defined benefit plan attributable to past service are changed so that the present value of the defined benefit obligation decreases, the resulting reduction in the defined benefit liability is recognised as a negative past service cost over the average period until the change in benefits becomes vested. Where, at the same time as the reduction in liability, other changes are made that result in an increase in the liability under the plan for the same employees, the change is treated as a single net change.

<u>Where a plan has been curtailed or settled, determining the resulting gain or loss</u>
Curtailments and settlements are events that change the liabilities relating to a defined benefit plan and that are not covered by normal actuarial assumptions.

A curtailment occurs when the Council either:

a) is demonstrably committed to making a significant reduction in the number of employees covered by a plan; or

b) amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

When a plan amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.

A curtailment may arise from an isolated event, such as the discontinuance of an activity, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case a curtailment is accounted for at the same time as for a related restructuring.

A settlement arises when a transaction is entered into that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan. Settlements have the effect of extinguishing a portion of the plan liabilities, usually by transferring plan assets to or on behalf of plan members to their new employer or an insurance company in settlement of the obligation.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in the Surplus or Deficit on the Provision of Services when the curtailment or settlement occurs. The gain or loss comprises:

a) any resulting change in the present value of the defined benefit obligation;

b) any resulting change in the fair value of the plan assets;

c) any unamortised related past service costs.

Before determining the effect of a curtailment or settlement, the obligation is re-measured (and the related plan assets) using current actuarial assumptions (including current market interest rates and other current market prices).

Balance sheet recognition
The amount recognised as a defined benefit liability Is the net total of the following amounts:

a) the present value of the defined benefit obligation at the Balance Sheet date;

b) minus any past service cost not yet recognised (ie past service costs that have not vested at the Balance Sheet date);

c) minus the fair value at the Balance Sheet date of plan assets out of which the obligations are to be settled directly.

The defined benefit liability as determined above may be negative (i.e. an asset). Where this is the case there is a limit on the amount that can be recognised on the Balance Sheet as an asset. Any Minimum Funding Requirement of the pension plan may also affect the amount that can be recognised as an asset.

The present value of defined benefit obligations and the fair value of any plan assets are determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the Balance Sheet date. This is interpreted to mean that between the formal actuarial valuations every three years, there are approximate assessments in intervening years. Acceptable approximations include adjusting full valuation results using the latest available membership data.

Surplus or deficit on the provision of services
The net total of the following amounts is recognised in Surplus or Deficit on the Provision of Services:

a) current service cost;

b) interest cost;

c) the expected return on any plan assets and on any reimbursement rights;

d) past service cost;

e) the effect of any curtailments or settlements.

21. LEASES

Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The Council as lessee

Finance leases
The Council, as lessee, recognises finance leases as assets and liabilities at amounts equal to the fair value of the asset or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and

reduction of the outstanding liability. The finance charge is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciation policy for assets held under finance leases is consistent with the depreciation policy for owned assets.

Operating leases
Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

The Council as lessor

Finance leases
The Council, as lessor, recognises assets held under finance leases as a receivable at an amount equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and finance income. The finance income is calculated so as to produce a constant periodic rate of return on the net investment

Operating leases
Items of property, plant and equipment subject to operating leases are presented according to the nature of the asset.

Income from operating leases is recognised on a straight-line basis over the lease term.

The policy for depreciable leased assets is consistent with the depreciation policy for other similar assets.

Arrangements containing a lease
An arrangement (other than a PFI arrangement) comprising a transaction that does not take the legal form of a lease, but conveys a right to use an asset (e.g. an item of property, plant and equipment), in return for a payment or series of payments, may be accounted for as though the arrangement is, or contains, a lease.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether:

a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and

b) the arrangement conveys a right to use the asset.

22. VAT

All amounts presented in the Council’s financial statements exclude any amounts relating to VAT except to the extent that it is irrecoverable.

23. JOINT VENTURES

A joint venture is a contractual or binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. There are three broad types of forms and structures that meet the definition of joint ventures:

- Jointly controlled entity – a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The

entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the profits of the jointly controlled entity.

- An interest in a jointly controlled entity is consolidated in Group Accounts using proportionate consolidation or the equity method, unless the interest is considered not material.

- Jointly controlled operations – the operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product/service and any expenses incurred in common are shared among the venturers.

In respect of jointly controlled operations, the Council recognises the assets that it controls and the liabilities that it incurs, the expenses that it incurs and its share of the income that it earns from the sale or provision of goods or services. Group Accounts are not produced where the Council has an interest in a jointly controlled operation.

- Jointly controlled assets – some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits and service potential through its share of the jointly controlled asset.

- Group Accounts are not produced where the Council has an interest in jointly controlled assets.

24. PRIVATE FINANCE INITIATIVE

A private finance initiative (PFI) arrangement typically involves a private sector operator constructing or enhancing infrastructure with which it is contractually obliged to deliver, on behalf of the Council, related public services and to operate and maintain it for a specified period of time. Infrastructure includes roads, street lighting, schools and office and administrative buildings, which contribute to the delivery of public services.

The Council controls or regulates what services the private sector operator must provide with the infrastructure, to whom it must provide them and at what price. The Council also controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

The infrastructure is initially recognised within property, plant and equipment when it is made available for use and its cost can be measured reliably. It is depreciated over its estimated useful economic life. A related liability is recognised at the same time and accounted for as a finance lease. If the asset is recognised in phases, the related liability is also recognised in phases.

Subsequent to initial recognition, the infrastructure is measured at fair value in the same way as other items of property, plant and equipment of that generic type. Revaluations of the asset following initial recognition do not affect the carrying value of the related liability.

The private sector operator is paid for its services over the period of the arrangement by means of an annual unitary charge which is allocated between a construction element (comprising repayment of the finance lease liability and the finance charge) and a service element. The finance charge and service element is expensed.

Where a PFI arrangement makes use of existing assets of the Council, enhancements to those assets and any additional infrastructure provided by the operator are recognised in accordance with the recognition requirements of property, plant and equipment.

Where the operator is given access to existing assets of the Council that are not to be used in the PFI arrangement, in exchange for reduced or eliminated payments, this may involve a permanent transfer of the assets to the operator, or may allow the operator access for a specified period. Where the arrangement involves a permanent transfer of an asset to the operator, the Council derecognises the asset in accordance with the derecognition requirements of property, plant and equipment. Where the arrangement does not involve a permanent transfer of the assets to the operator, the Council accounts for the arrangement as a lease.

FINANCIAL STATEMENTS – 2010/2011

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the council‘s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£’000	£’000	£’000	£’000	£’000	£’000	£’000
Balance at 31 March 2010	6,431	9,778	-	1,596	17,805	(111,523)	(93,718)
Movement in reserves during 2010/2011							
Surplus/(Deficit) on the provision of services	14,573	-	-	-	14,573	-	14,573
Other Comprehensive Income and Expenditure	-	-	-	-	-	52,037	52,037
Total Comprehensive Income and Expenditure	14,573	-	-	-	14,573	52,037	66,610
Adjustments between accounting basis & funding basis under regulations (Note 6)	(12,024)	-	-	(940)	(12,964)	12,964	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	2,549	-	-	(940)	1,609	65,001	66,610
Transfers to/(from) Earmarked Reserves (Note 8)	(2,652)	2,652	-	-	-	-	-
Increase/(Decrease) in Year	(103)	2,652	-	(940)	1,609	65,001	66,610
Balance at 31 March 2011 carried forward	6,328	12,430	-	656	19,414	(46,522)	(27,108)

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2009	4,268	15,000	733	1,498	21,499	52,529	74,028
<u>Movement in reserves during 2009/2010</u>							
Surplus/(Deficit) on the provision of services	(96,811)	-	-	-	(96,811)	-	(96,811)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(70,935)	(70,935)
Total Comprehensive Income and Expenditure	(96,811)	-	-	-	(96,811)	(70,935)	(167,746)
Adjustments between accounting basis & funding basis under regulations (Note 6)	93,752	-	(733)	98	93,117	(93,117)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	(3,059)	-	(733)	98	(3,694)	(164,052)	(167,746)
Transfers to/(from) Earmarked Reserves (Note 8)	5,222	(5,222)	-	-	-	-	-
Increase/(Decrease) in 2009/2010	2,163	(5,222)	(733)	98	(3,694)	(164,052)	(167,746)
Balance at 31 March 2010 carried forward	6,431	9,778	-	1,596	17,805	(111,523)	(93,718)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009/2010				2010/2011		
Gross Expend-iture	Gross Income	Net Expend-iture		Gross Expend-iture	Gross Income	Net Expend-iture
£'000	£'000	£'000		£'000	£'000	£'000
18,448	(16,580)	1,868	Central services to the public	18,033	(16,516)	1,517
241	-	241	Court Services	271	-	271
51,255	(9,587)	41,668	Cultural, environmental, regulatory and planning services	46,282	(10,461)	35,821
197,707	(140,424)	57,282	Education and children's services	183,574	(144,417)	39,157
19,573	(2,910)	16,663	Highways and transport services	22,746	(3,102)	19,644
56,863	(50,748)	6,115	Other housing services	58,571	(54,404)	4,167
68,200	(15,325)	52,875	Adult social care	65,346	(12,906)	52,440
9,469	(3,598)	5,871	Corporate and democratic core	7,286	(2,671)	4,615
3,088	(181)	2,907	Non distributed costs	(39,967)	(303)	(40,270)
424,843	(239,353)	185,490	**Cost of Services**	362,142	(244,780)	117,362
		50,472	Other Operating Expenditure (Note 11)			11,556
		21,646	Financing and Investment Income and Expenditure (Note 12)			18,117
		(160,797)	Taxation and Non-Specific Grant Income (Note 13)			(161,608)
		96,811	**(Surplus)/Deficit on Provision of Services**			(14,573)
		3,064	(Surplus)/Deficit on revaluation of non current assets			(1,846)
		145	(Surplus)/Deficit on revaluation of available for sale financial assets			293
		67,726	Actuarial (gains)/losses on pension assets/liabilities			(50,484)
		70,935	**Other Comprehensive Income and Expenditure**			(52,037)
		167,746	**Total Comprehensive Income and Expenditure**			(66,610)

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services.

1 April 2009	31 March 2010		Notes	31 March 2011
£'000	£'000			£'000
341,502	268,375	Property, Plant & Equipment	14	259,747
14,482	14,203	Investment Property	17	14,171
7,277	2,577	Intangible Assets	18	2,458
1,098	953	Long Term Investments	19	660
439	620	Long Term Debtors	20	636
364,798	286,728	**Long Term Assets**		277,672
27,513	2,506	Short Term Investments	21	14,766
-	-	Intangible Assets		54
2,111	1,760	Assets Held for Sale	22	872
149	156	Inventories	23	126
20,253	24,075	Short Term Debtors	24	18,106
12,498	23,757	Cash and Cash Equivalents	25	20,279
62,524	52,254	**Current Assets**		54,203
(6,721)	(3,784)	Short Term Borrowing	21	(6,869)
(38,083)	(43,105)	Short Term Creditors	26	(43,882)
(3,458)	(3,662)	Short Term Provisions	27	(5,789)
(48,262)	(50,551)	**Current Liabilities**		(56,540)
(365)	(244)	Long Term Creditors	28	(239)
(4,381)	(6,798)	Long Term Provisions	27	(5,832)
(146,562)	(145,256)	Long Term Borrowing	21	(150,238)
(153,724)	(229,851)	Other Long Term Liabilities	48 & 54	(146,134)
(305,032)	(382,149)	**Long Term Liabilities**		(302,443)
74,028	(93,718)	**Net Assets**		(27,108)
21,499	17,805	Usable Reserves	30	19,414
52,529	(111,523)	Unusable Reserves	31	(46,522)
74,028	(93,718)	**Total Reserves**		(27,108)

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2009/2010 £'000		2010/2011 £'000
(96,811)	Net surplus/(deficit) to the provision of services	14,573
111,083	Adjustments to net surplus/(deficit) on the provision of services for non cash movements	5,324
(20,609)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	(14,561)
(6,337)	Net cash flows from Operating Activities (Note 32)	5,336
24,974	Investing Activities (Note 33)	(15,502)
(6,898)	Financing Activities (Note 34)	6,688
11,739	Net increase/(decrease) in cash and cash equivalents	(3,478)
12,018	Cash and cash equivalents at the beginning of the reporting period	23,757
23,757	**Cash and cash equivalents at the end of the reporting period (Note 25)**	20,279

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

NOTES TO THE ACCOUNTS – 2010/2011

NOTE 1 – TRANSITION TO IFRS

The Statement of Accounts for 2010/2011 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/2010.

An explanation of the differences between the amounts presented in the 2009/2010 financial statements and the equivalent amounts presented in the 2010/2011 financial statements is set out in the following tables and notes that accompany the tables.

RECONCILIATION OF NET WORTH REPORTED UNDER PREVIOUS GAAP TO NET WORTH UNDER IFRS AT THE DATE OF TRANSITION TO IFRS (1ST APRIL 2009).

		Effect of transition to IFRS							
	Notes	Previous GAAP	Absences 1	Leases 2	Grants 3	Valuations 4	Other 5	Total Adjust-ments 6	IFRS
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property, Plant & Equipment	14	350,854	-	1,819	-	739	(11,910)	(9,352)	341,502
Investment Property	17	4,432	-	-	-	10,050	-	10,050	14,482
Intangible Assets	18	7,277	-	-	-	-	-	-	7,277
Long Term Investments	19	1,098	-	-	-	-	-	-	1,098
Long Term Debtors	20	439	-	-	-	-	-	-	439
Long Term Assets		364,100	-	1,819	-	10,789	(11,910)	698	364,798
Short Term Investments	21	41,169	-	-	-	-	(13,176)	(13,176)	27,993
Assets Held for Sale	22	19,446	-	-	-	(17,335)	-	(17,335)	2,111
Inventories	23	149	-	-	-	-	-	-	149
Short Term Debtors	24	20,253	-	-	-	-	-	-	20,253
Cash and Cash Equivalents	25	(1,158)	-	-	-	-	13,176	13,176	12,018
Current Assets		79,859	-	-	-	(17,335)	-	(17,335)	62,524
Short Term Borrowing	21	(8,317)	-	1596	-	-		1,596	(6,721)
Short Term Creditors	26	(32,225)	-	(2,111)	(4,112)	-	365	(5,858)	(38,083)
Short Term Provisions	27	-	(3,443)	-	-	-	(15)	(3,458)	(3,458)
Current Liabilities		(40,542)	(3,443)	(515)	(4,112)	-	351	(7,720)	(48,262)
Long Term Creditors	28	-	-	-	-	-	(365)	(365)	(365)
Long Term Provisions	27	(4,396)	-	-	-	-	15	-	(4,381)
Long Term Borrowing	21	(146,562)	-	-	-	-	-	-	(146,562)
Other Long Term Liabilities	48 & 54	(215,502)	-	(1,311)	63,089	-		61,778	(153,724)
Long Term Liabilities		(366,460)	-	(1,311)	63,089	-	(351)	61,428	(305,032)
Net Assets		36,957	(3,443)	(7)	58,977	(6,546)	(8,467)	37,071	74,028
Represented by:									
Usable Reserves	30	20,001	-	-	1,498	-	-	1,498	21,499
Unusable Reserves	31	16,956	(3,443)	(7)	57,479	(6,546)	(11,910)	35,573	52,529
Total Reserves		36,957	(3,443)	(7)	58,977	(6,546)	(11,910)	37,071	74,028

RECONCILIATION OF NET WORTH REPORTED UNDER PREVIOUS GAAP TO NET WORTH UNDER IFRS AT THE END OF THE LATEST PERIOD PRESENTED IN THE MOST RECENT FINANCIAL STATEMENTS UNDER PREVIOUS GAAP (31ST MARCH 2010).

			Effect of transition to IFRS						
	Notes	Previous GAAP	Adjust-ments b/f as (6) above	Absences 1	Leases 2	Grants 3	Valuations 4	Other 5	IFRS
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property, Plant & Equipment	14	279,327	(9,352)	-	(542)	-	(1,058)	-	268,375
Investment Property	17	4,657	10,050	-	-	-	(504)	-	14,203
Intangible Assets	18	2,577	-	-	-	-	-	-	2,577
Long Term Investments	19	953	-	-	-	-	-	-	953
Long Term Debtors	20	620	-	-	-	-	-	-	620
Long Term Assets		288,134	698	-	(542)	-	(1,562)	-	286,728
Short Term Investments	21	27,365	(13,176)	-	-	-	-	(11,683)	2,506
Assets Held for Sale	22	11,789	(17,335)	-	-	-	7,306	-	1,760
Inventories	23	155	-	-	-	-	-	1	156
Short Term Debtors	24	24,075	-	-	-	-	-	-	24,075
Cash and Cash Equivalents	25	(1,102)	13,176	-	-	-	-	11,683	23,757
Current Assets		62,282	(17,335)	-	-	-	7,306	1	52,254
Short Term Borrowing	21	(4,711)	1,596	-	-	-	-	(669)	(3,784)
Short Term Creditors	26	(35,529)	(5,858)	(186)	55	-	-	(1,587)	(43,105)
Short Term Provisions	27	-	(3,443)	-	-	-	-	(219)	(3,662)
Current Liabilities		(40,240)	(7,705)	(186)	55	-	-	(2,475)	(50,551)
Long Term Creditors	28	-	(365)	-	-	-	-	121	(244)
Long Term Provisions	27	(6,831)	-	-	-	-	-	33	(6,798)
Long Term Borrowing	21	(145,256)	-	-	-	-	-	-	(145,256)
Other Long Term Liabilities	48 & 54	(304,950)	61,778	-	460	10,539	-	2,322	(229,851)
Long Term Liabilities		(457,037)	61,413	-	460	10,539	-	2,476	(382,149)
Net Assets		(146,861)	37,071	(186)	(27)	10,539	5,744	2	(93,718)
Represented by:									
Usable Reserves	30	16,209	1,498	-	-	98	-	-	17,805
Unusable Reserves	31	(163,070)	35,573	(186)	(27)	10,441	5,744	2	(111,523)
Total Reserves		(146,861)	37,071	(186)	(27)	10,539	5,744	2	(93,718)

RECONCILIATION TO TOTAL COMPREHENSIVE INCOME & EXPENDITURE UNDER IFRS FOR THE LATEST PERIOD IN THE MOST RECENT ANNUAL FINANCIAL STATEMENTS (YEAR ENDED 31ST MARCH 2010).

		Net Expenditure						
			Effect of transition to IFRS					
	Notes	Previous GAAP	Absences 1	Leases 2	Grants 3	Valuations 4	Other 5	IFRS
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross expenditure, gross income and net expenditure of continuing operations								
Central services to the public		1,863	(1)	-	-	-	6	1,868
Court Services		241	-	-	-	-	-	241
Cultural, environmental, regulatory and planning services		46,418	(141)	(5)	552	(5,367)	211	41,668
Education and children's services		54,531	214	-	2,865	(142)	(186)	57,282
Highways and transport services		16,244	(1)	-	468	(20)	(28)	16,663
Other housing services		6,095	-	-	11	-	9	6,115
Adult social care		52,462	58	-	71	5	279	52,875
Corporate and democratic core		5,850	17	-	4	-	-	5,871
Non distributed costs		2,178	7	-	-	-	722	2,907
Cost of Services		185,882	153	(5)	3,971	(5,524)	1,013	185,490
Other Operating Expenditure	11	-	-	-	-	-	50,472	50,472
Financing and Investment Income and Expenditure	12	-	-	-	-	-	21,646	21,646
Taxation and Non-Specific Grant Income	13	-	-	-	(14,586)	-	(146,211)	(160,797)
(Surplus)/Deficit on Provision of Services		185,882	153	(5)	(10,615)	(5,524)	(73,078)	96,811
Surplus/Deficit on revaluation of non current assets		-	-	-	-	-	3,064	3,064
Surplus/Deficit on revaluation of available for sale		-	-	-	-	-	145	145
Actuarial (gains)/losses on pension assets/liabilities		-	-	-	-	-	67,726	67,726
Other Comprehensive Income and Expenditure		-	-	-	-	-	70,935	70,935
Total Comprehensive Income and Expenditure		185,882	153	(5)	(10,615)	(5,524)	(2,145)	167,746

1. Short-Term Accumulating Compensated Absences

Short-Term Accumulating Compensated Absences (STACA) refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay. Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulating Compensated Absences Adjustment Account until the benefits are used.

2. Leases

Previously, under the SORP the stream of payments was compared to the value of the asset, and if 90% of the asset value was exceeded by the NPV of payments, then the lease was categorised as a finance lease.

All leases have been reviewed on the basis of the introduction of IAS 17. This introduces a more subjective assessment, which is more likely to result in a lease being classified as a Finance lease.

Under IFRS, if a current operating lease arrangement shows the following criteria:

- the total lease payments add up to a significant proportion of the cost of the asset,
- the term of the lease is for a significant period of the economic life of the asset, and;
- the asset is of a specialist nature and is unlikely to be reused in another establishment

On the basis of this assessment, 12 lease arrangements for vehicles previously categorised as operating leases have been recategorised as finance leases. This has resulted in the following changes in the accounts:

- Recognise Asset - Funded by lease liability
- Remove lease costs from Area Revenue Budget - Charge instead to interest paid and liability repaid
- Charge depreciation to Area Budget - write off against CAA previous years
- Charge depreciation to Area budget in year
- Charge MRP

These changes have the result of amending the statements of account as detailed above.

The net change to Cultural, environmental, regulatory and planning services consists of the removal of the operating lease charges for vehicles now classed as Finance Leases (-£0.515m) and the inclusion of a depreciation charge (£0.542m).

The net increase in the surplus or deficit on the provision of services is removed by transfer of the depreciation charge to the Capital Adjustment Account (in unusable reserves) as outlined above.

This transfer is also shown in the movement in reserves statement.

3. Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. They are then recognised in the Comprehensive Income and Expenditure Statement. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.

A full review of the grants held in the grants unapplied code has been carried out. This review has identified where grants are subject to conditions. Where these conditions have not yet been met, the code requires the balance of the grant to be held as a creditor (grants in advance). Where the conditions have been met, or no conditions exist, but the grant has not yet been spent, it is carried forward as an earmarked reserve.

4. Valuations

IFRS differs from GAAP in how some assets are classified. The major change in this area is the classification of assets held for sale, which must now satisfy a much stricter criteria, including that the asset will be sold within 12 months. This replaces the category of asset "Surplus Assets", a more general category under GAAP.

It also changes the valuation basis for some assets.

These changes are fully reflected in the balance sheets above.

5. Other

Trading Activities
Under GAAP Trading Activities were shown as a separate line on the face of the Income and Expenditure Account, however under IFRS the requirement is to shown them within the net cost of services. This has resulted in the net cost of services increasing to reflect the trading activities income and expenditure. The Council has also reviewed the activities which were included within trading activities and this has resulted in property services and the integrated transport unit being reclassified as support services and recharged as such.

Miscellaneous
Various adjustments to move the lines which were below the net cost of services on the Income and Expenditure Account under GAAP to lines below the cost of services on the Comprehensive Income and Expenditure Statement.

Cash and Cash Equivalents
Under IFRS, Cash and Cash Equivalents include "low risk" investments with a maturity of less than 3 months (90 days). This has resulted in the reduction of short term investments and the increase in cash and equivalents.

PFI adjustment
See Note 49 - Prior Period adjustment in relation to Schools PFI.

Short and Long Term Adjustments
Under IFRS, the council is required to apply a stricter criteria in making a distinction between items due for transaction within 12 months, or beyond 12 months. This has resulted in movements between short and long term in the following areas:

- Creditors
- Liabilities
- Provisions

NOTE 2 – ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

For 2010/2011 the only accounting policy change that needs to be reported relates to FRS 30 on Heritage Assets.

The adoption of this accounting standard is not expected to have any significant impact on the financial statements for both 2011/2012 or 2010/2011.

NOTE 3 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in pages 16 to 32, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- In the current economic climate there is a degree of uncertainty about future levels of funding and as a result the Council is undertaking ongoing reviews in terms of providing services. The Council has determined that there remains sufficient uncertainty over future events that would indicate that its assets may be materially impaired due to closing services or reduced funding.

- The Council has conducted an impairment review on non-current assets which were not reviewed in the current financial year. As a result of this review no material impairments have been identified.

- The government changed its view (at the start of the 2010/2011 financial year) as regards the valuation of pension's liabilities from RPI (Retail Price Index) to CPI (Consumer prices Index). This change has implications for local government financial statements by reducing the value of the employer's liabilities for accounting purposes. The Council has decided that the treatment of this adjustment should be borne as a revenue expense via the Comprehensive Income and Expenditure Statement rather than an unrealised actuarial gain within the Balance Sheet.

- The Council has made estimates of the net pay liability to pay pensions which depend on a set of complex judgements and projections supported by the actuary, which include; the discount rate at which salaries are expected to increase, changes in retirement ages, mortality rates, and expected future returns.

- To reflect the economic and financial climate, the Council has determined its bad debt provision based on a range of factors including the age profile, type of debt, debtor profile, and position within the recovery process

NOTE 4 – ASSUMPTION MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.170m for every year that useful lives had to be reduced.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Provisions	The Council has made a provision of £5.2m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £466k to the provision needed.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £10.5m. Whereas a one year change in mortality rate assumption, would change the overall liability by £18m.

NOTE 5 – EVENTS AFTER THE BALANCE SHEET DATE (31 MARCH 2011)

The Statement of Accounts was authorised for issue by the Head of Corporate Financial Services on 30 June 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

At the date of issue, the Council is not aware of any events that would materially impact on the financial statements or notes to the accounts.

NOTE 6 – ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2010/2011

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movements in Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of item debited or (credited) to the Comprehensive Income and Expenditure Statement</u>				
Charges for depreciation and impairment of non current assets	13,484	-	-	(13,484)
Revaluation losses on Property, Plant and Equipment	12,307	-	-	(12,307)
Amortisation of intangible assets	506	-	-	(506)
Capital grants and contributions	(13,225)	-	(940)	14,165
Revenue Expenditure funded from capital under statute	8,062	630	-	(8,692)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	10,844	717	-	(11,561)
<u>Insertion of items not debited or (credited) to the Comprehensive Income and Expenditure Statement</u>				
Statutory provision for the financing of capital investment	(5,724)	-	-	5,724
Adjustments involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(1,342)	-	1,342
Adjustments involving the Deferred Capital Receipts Reserve:	-	(5)	-	5
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	(627)	-	-	627
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 54)	(23,416)	-	-	23,416
Employers Pension Contributions and direct payments to pensioners payable in the year	(14,630)	-	-	14,630
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council tax income calculated for the year in accordance with statutory requirements	(64)	-	-	64
Adjustments involving the Unequal Pay Back Pay Adjustment Account:	-	-	-	-

2010/2011

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movements in Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustments involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in year in accordance with statutory requirements	456	-	-	(456)
Total Adjustments	(12,024)	-	(940)	12,964

2009/2010 comparative figures

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movements in Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of item debited or (credited) to the Comprehensive Income and Expenditure Statement</u>				
Charges for depreciation and impairment of non current assets	12,879	-	-	(12,879)
Revaluation losses on Property, Plant and Equipment	42,471	-	-	(42,471)
Amortisation of intangible assets	826	-	-	(826)
Capital grants and contributions	(20,174)	-	98	20,076
Revenue Expenditure funded from capital under statute	11,816	-	-	(11,816)
Amounts of non current assets written off on disposal or sale as part of the (gain)/loss on disposal to the Comprehensive Income and Expenditure Statement	48,332	430	-	(48,762)
<u>Insertion of items not debited or (credited) to the Comprehensive Income and Expenditure Statement</u>				
Statutory provision for the financing of capital investment	(8,199)	-	-	8,199
Capital Expenditure charged against the General Fund	(57)	-	-	57
Adjustments involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(1,157)	-	1,157
Adjustments involving the Deferred Capital Receipts Reserve:	-	(6)	-	6
Adjustments involving the Financial Instruments Adjustment Account:				

2009/2010 comparative figures

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movements in Unusable Reserves
	£'000	£'000	£'000	£'000
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	(243)	-	-	243
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or (credited) to the Comprehensive Income and Expenditure Statement (Note 31)	17,857	-	-	(17,857)
Employers Pension Contributions and direct payments to pensioners payable in the year	(14,012)	-	-	14,012
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council tax income calculated for the year in accordance with statutory requirements	162	-	-	(162)
Adjustments involving the Unequal Pay Back Pay Adjustment Account:				
Amount by which amounts charged for equal pay to the Comprehensive Income and Expenditure Statement is different from cost of settlements chargeable in year in accordance with statutory requirements	1,908	-	-	(1,908)
Adjustments involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in year in accordance with statutory requirements	184	-	-	(184)
Total Adjustments	93,752	(733)	98	(93,117)

NOTE 7 – AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)

- the cost of retirement benefits is based on cash flows (payment of employers pensions contributions) rather than current service cost of benefits accrued in the year

- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure

2010/2011

	Area Management	Corporate Resources	Adults & Children's Services	Chief Executive	Regeneration	General Fund	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(22,073)	(3,548)	(22,589)	(492)	(3,730)	204	(52,228)
Interest & Investment Income	-	-	-	-	(2)	(29)	(31)
Government grants	(3,089)	(68,191)	(141,987)	(18)	(5,482)	1	(218,766)
Total Income	(25,162)	(71,739)	(164,576)	(510)	(9,214)	176	(271,025)
Employee expenses	14,527	2,938	96,917	425	5,976	(40,506)	80,277
Other service expenses	20,822	69,209	130,146	164	10,670	(191)	230,820
Support service recharges	25,263	3,045	19,598	1,839	3,811	37	53,593
Depreciation, Amortisation and Impairment	7,617	36	9,631	-	6,397	16	23,697
Total Expenditure	68,229	75,228	256,292	2,428	26,854	(40,644)	388,387
Net Expenditure	43,067	3,489	91,716	1,918	17,640	(40,468)	117,362

Directorate Income and Expenditure

2009/2010 Comparative Figures

	Area Management	Corporate Resources	Adults & Children's Services	Chief Executive	Regeneration	General Fund	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(5,811)	(3,576)	(16,617)	(378)	(1,815)	(236)	(28,433)
Interest & Investment Income	-	-	-	-	(7)	(21)	(28)
Government grants	(3,927)	(63,700)	(139,469)	(15)	(3,780)	-	(210,891)
Total Income	(9,738)	(67,276)	(156,086)	(393)	(5,602)	(257)	(239,352)
Employee expenses	14,117	2,679	92,339	141	5,176	1,909	116,361
Other service expenses	20,938	65,260	125,365	231	10,155	1,483	223,432
Support service recharges	9,326	3,978	19,634	2,720	2,237	-	37,895
Depreciation, Amortisation and Impairment	7,175	36	29,125	-	10,813	5	47,154
Total Expenditure	51,556	71,953	266,463	3,092	28,381	3,397	424,842
Net Expenditure	41,818	4,677	110,377	2,699	22,779	3,140	185,490

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement.

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2009/2010		2010/2011
£'000		£'000
185,490	Net expenditure in the Directorate Analysis	117,362
50,472	Other Operating Expenditure (Note 11)	11,556
21,646	Financing and Investment Income and Expenditure (Note 12)	18,117
(160,797)	Taxation and Non-specific Grant income (Note 13)	(161,608)
96,811	**Cost of Services in Comprehensive Income and Expenditure Statement**	(14,573)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010/2011	Directorate Analysis	Other Operating Expenditure (Note 11)	Financing and Investment Income and Expenditure (Note 12)	Taxation and Non-specific Grant income (Note 13)	Surplus or Deficit on provision of Services
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(52,229)	-	-	-	(52,229)
Interest and investment income	(31)	-	(439)	-	(470)
Income from council tax	-	-	-	(56,963)	(56,963)
Government grants and contributions	(218,766)	-	-	(104,645)	(323,411)
Total Income	(271,026)	-	(439)	(161,608)	(433,073)
Employee expenses	80,278	-	3,142	-	83,420
Other service expenses	230,820	-	1	-	230,821
Support Service recharges	53,593	-	-	-	53,593
Depreciation, amortisation and impairment	23,697	-	(354)	-	23,343
Interest payments	-	-	15,768	-	15,768
Precepts & Levies	-	654	-	-	654
(Gain)/Loss on Disposal of Fixed Assets	-	10,901	-	-	10,901
Total Expenditure	388,388	11,555	18,557	-	418,500
Surplus/Deficit on the provision of services	117,362	11,555	18,118	(161,608)	(14,573)

2009/2010	Directorate Analysis	Other Operating Expenditure (Note 11)	Financing and Investment Income and Expenditure (Note 12)	Taxation and Non-specific Grant income (Note 13)	Surplus or Deficit on provision of Services
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(28,434)	-	-	-	(28,434)
Interest and investment income	(28)	-	(500)	-	(528)
Income from council tax	-	-	-	(55,554)	(55,554)
Government grants and contributions	(210,892)	-	-	(105,243)	(316,135)
Total Income	(239,354)	-	(500)	(160,797)	(400,651)
Employee expenses	116,361	-	7,137	-	123,498
Other service expenses	223,433	-	12	-	223,445
Support Service recharges	37,896	-	-	-	37,896
Depreciation, amortisation and impairment	47,152	-	(868)	-	46,284
Interest payments	2	-	15,866	-	15,868
Precepts & Levies	-	891	-	-	891
(Gain)/Loss on Disposal of Fixed Assets	-	49,580	-	-	49,580
Total Expenditure	424,844	50,471	22,147	-	497,462
Surplus/Deficit on the provision of services	185,490	50,471	21,647	(160,797)	96,811

NOTE 8 – TRANSFERS TO/FROM EARMARKED RESERVES

Earmarked Reserves are sums set aside to meet a liability expected to be met in the future, but for which the timing is uncertain.

	Balance at 1 April 2009	Transfers Out 2009/2010	Transfers In 2009/2010	**Balance at 31 March 2010**	Transfers Out 2010/2011	Transfers In 2010/2011	**Balance at 31 March 2011**
	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Balances held by schools under a scheme of delegation	**6,502**	(1,302)	1,541	**6,741**	(1,729)	1,744	**6,756**
Risk Management Fund	**226**	(32)	117	**311**	(34)	114	**391**
Insurance Fund	**1,543**	(1,543)	-	**-**	-	-	**-**
Trust Funds (On Deposit with the Council)	**127**	(3)	-	**124**	-	1	**125**
Saltburn Bandstand Fund	**9**	-	-	**9**	-	-	**9**
Private Finance Initiative – Schools	**2,082**	(138)	8	**1,952**	(313)	-	**1,639**
Private Finance Initiative – Street Lighting	**1,399**	-	418	**1,817**	-	289	**2,106**
Equal Pay Legal Costs Reserve	**125**	(22)	-	**103**	-	-	**103**
Change Management Reserve	**284**	(284)	-	**-**	-	-	**-**
Direct Revenue Funding Reserve	**93**	(145)	52	**-**	-	-	**-**
Economic Growth Reserve	**312**	(312)	-	**-**	-	-	**-**
Area Based Grant Reserve	**1,724**	(15,546)	16,215	**2,393**	(2,393)	-	**-**
Building Schools for the Future Reserve	**284**	(284)	-	**-**	-	-	**-**
Property Services Reserve	**290**	(290)	-	**-**	-	-	**-**
Election Costs Reserve	**-**	-	65	**65**	-	35	**100**
Contingent borrowing from Earmarked Reserves	**-**	(3,737)	-	**(3,737)**	-	1,000	**(2,737)**
Energy Discount Reserve	**-**	-	-	**-**	-	217	**217**
Enterprise Funding Reserve	**-**	-	-	**-**	-	2,999	**2,999**
Regeneration Income Reserve	**-**	-	-	**-**	-	354	**354**
Corporate Resources Income Reserve	**-**	-	-	**-**	-	99	**99**
Area Management Income Reserve	**-**	-	-	**-**	-	74	**74**
Education & Skills Income Reserve	**-**	-	-	**-**	-	195	**195**
Total	**15,000**	(23,638)	18,416	**9,778**	(4,469)	7,121	**12,430**

Balances held by schools are the accumulated balances and the differences between the school budget and actual expenditure incurred for all of the Redcar and Cleveland Schools. In accordance with Government regulations and the Council's scheme of delegation for schools, these funds are carried forward and specifically earmarked for use by schools in future years.

The Risk Management Fund was established to fund one off goods or services, which are required to cover loss control whether this is by elimination or reduction of incidents that otherwise may impose a cost to the Council.

The Insurance Fund has been reclassified in 2009/2010 from Earmarked Reserves to Provisions as the claims covered by the fund have already been incurred and the costs are known with some certainty.

The Trust Funds are all in respect of sums deposited with the Council for 'safekeeping' by bodies with aims which the Council supports and has some involvement, with Members/Officers as either members of the Management or as a Trustee. These sums do not belong to the Council and may be withdrawn by the body concerned.

Saltburn Bandstand Fund is for anticipated dilapidations needing to be remedied in the future.

The Council receives support from the Government in the form of PFI grant, which is paid on an annuity basis. Where the funding available is in excess of the contract payments to be made in the year the surplus is transferred to an earmarked PFI reserve. This reserve is called upon in future years when contract payments exceed funding available. Interest is applied to the balance on the reserve. PFI reserves are in operation for both schools and street lighting.

The Equal Pay Legal Costs Reserve has been set up as the Council is facing a number of equal pay claims some of which are subject to ongoing litigation. The reserve exists to cover the relevant legal costs.

The Election Costs Reserve is funding which has been earmarked to meet the costs associated with elections.

The Energy Discount Reserve is to fund projects which will reduce the Council's carbon footprint.

The Enterprise Funding Reserve is created from residual Area Based Grant, which was transferred from the Area Based Grant Reserve. The funding will be used to match fund external grant to continue enterprise activity in the borough.

Some grant income received by the Council has restrictions on how the income is to be applied. Where there are no conditions, or the conditions have been met, the income has been recognised against the Net Cost of Services, even if the expenditure has not been incurred. An appropriation is therefore needed against general reserves to carry forward the funding to meet the spend. This is carried forward as an earmarked reserve if it has not been applied in year. The Regeneration Income Reserve, Corporate Resources Income Reserve, Area Management Income Reserve and the Education & Skills Income Reserves have all been created in this way.

NOTE 9 – INSURANCE FUND

			Balance 31 March 2010	Contributions In Year	Net Paid in Year	Balance 31 March 2011
			£'000	£'000	£'000	£'000
Insurance Fund	-	Risk Management	311	114	(34)	391
	-	Liability	1,259	615	(341)	1,533
	-	Motor	119	76	(148)	47
	-	Property	-	-	-	-
			1,689	805	(523)	1,971

The Council operates a self funding arrangement, on its liability policies.. From 1 April 1996 onwards, the first £0.100m of each claim is funded by the Council with additional amounts

claimed covered by its insurance policies. The amounts above are classed as provision with the exception of the risk management fund which acts as a reserve.

NOTE 10 – TRUST FUNDS

Five Trust Funds have deposited a total of £0.126m to the Council for "safe-keeping" (2009/2010 £0.125m). The balances of these Trust Funds are included in the Council's own balances as the amounts involved are immaterial to a fair understanding of assets owned and as a result have not been adjusted.

Balance 31 March 2009		Balance 31 March 2010	Investment Income	Expenditure	Balance 31 March 2011
£'000		£'000	£'000	£'000	£'000
	Education Trusts:				
85	Hutton Lowcross	84	1	-	85
21	Marian Pearson	19	-	-	19
	Other Trusts:				
9	Lazenby Special Fund	9	-	-	9
3	Joseph and Mary Fund	3	-	-	3
9	Borough of Redcar and Cleveland's Emergency Relief Fund	9	-	-	9
127	Total	124	1	-	125

The purpose of the only two Trusts of any financial significance is to assist individuals under 25 years of age to further their education. The Hutton Lowcross Trust is for those in the Guisborough area, and the Marion Pearson for ex-pupils of three named schools to fund travel expenses.

NOTE 11 – OTHER OPERATING EXPENDITURE

The line below the Net Cost of Services in the Comprehensive Income and Expenditure Statement can be analysed as follows:

2009/2010		2010/2011
£'000		£'000
519	Parish council precepts	524
102	Levies	130
48,392	(Gains)/Losses on the disposal of non current assets	10,902
1,459	Creation of Insurance Provision	-
50,472	**Total**	11,556

NOTE 12 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE

The line below the Net Cost of Services in the Comprehensive Income and Expenditure Statement can be analysed as follows:

2008/2009	2009/2010		2010/2011
£'000	£'000		£'000
7,927	15,866	Interest payable and similar charges	15,768
5,797	7,137	Pensions interest cost and expected return on pensions assets	3,142
(2,806)	(489)	Interest receivable and similar income (1)	(439)
2,477	(868)	Impairment of Financial Instruments (2)	(354)
13,395	21,646	Total	18,117

(1) - Interest receivable is shown net of contributions to reserves and provisions in year
(2) - Relates to Icelandic investments – See Impairment of Investments within Financial Instruments (Note 21).

NOTE 13 – TAXATION AND NON SPECIFIC GRANT INCOME

The line below the Net Cost of Services in the Comprehensive Income and Expenditure Statement can be analysed as follows:

2009/2010		2010/2011
£'000		£'000
55,554	Council tax income	56,963
54,166	Distribution from Non-domestic Rates Pool	59,998
	Non-ring fenced government grants:	
12,502	Revenue Support Grant	8,712
62	Local Area Performance Reward Grant	2,102
16,215	Area Based Grant	16,472
7,123	PFI Grant	7,123
589	Housing and Planning Delivery Grant	-
-	Learning Disability Social Care Funding	1,866
14,586	Capital grants and contributions	8,372
160,797	Total	161,608

All the above grants are allocated to the Council with no restrictions on their future use. However in most cases the Council has honoured the remit of the grant in it's spending decisions.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

Movements in 2010/2011:

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2010	163,280	16,097	146,506	7,303	838	334,024	37,584
Additions	6,966	4,400	9,529	430	4,458	25,783	4,488
Donations	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,751)	-	-	97	-	(2,654)	(195)
Revaluation increases/(decreases) recognised in the surplus/deficit on the Provision of Services	(12,086)	-	-	(142)	-	(12,228)	-
Derecognition - Disposals	(11,494)	(32)	-	-	-	(11,526)	-
Derecognition - Other	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	871	871	-
Other movements in Cost or Valuation	90	-	-	-	-	90	-
At 31 March 2011	144,005	20,465	156,035	7,688	6,167	334,360	41,877
Accumulated Depreciation and Impairment							
At 1 April 2010	6,747	9,246	49,655	-	-	65,648	1,450
Depreciation charge	4,870	2,925	5,689	1	-	13,484	1,359
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	-	(195)
Depreciation written out to the surplus/deficit on the Provision of Services	(4,498)	-	-	(1)	-	(4,499)	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the surplus/deficit on the Provision of Services	-	-	-	-	-	-	-
Derecognition - Disposals	(7)	(13)	-	-	-	(20)	-
Derecognition - Other	-	-	-	-	-	-	-
Other movements in Depreciation and Impairment	-	-	-	-	-	-	-
At 31 March 2011	7,112	12,158	55,344	-	-	74,613	2,614
Net Book Value							
At 31 March 2011	136,893	8,307	100,691	7,688	6,167	259,747	39,263
At 31 March 2010	156,533	6,851	96,850	7,303	838	268,375	36,134

Comparative Movements in 2009/2010:

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2009	235,996	24,622	137,177	8,110	4,928	410,834	41,618
Additions	34,767	1,467	9,329	401	243	46,207	5,946
Donations	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,495)	(1,977)	-	-	-	(4,472)	-
Revaluation increases/(decreases) recognised in the surplus/deficit on the Provision of Services	(42,816)	(735)	-	(311)	(402)	(44,264)	-
Derecognition - Disposals	(65,516)	(7,280)	-	-	(2,567)	(75,363)	(9,980)
Derecognition - Other	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other movements in Cost or Valuation	3,344	-	-	(897)	(1,365)	1,082	-
At 31 March 2010	163,280	16,097	146,506	7,303	837	334,023	37,584
Accumulated Depreciation and Impairment							
At 1 April 2009	9,091	15,230	44,953	58	-	69,332	748
Depreciation charge	5,247	2,903	4,702	27	-	12,879	871
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	-	-
Depreciation written out to the surplus/deficit on the Provision of Services	(7,591)	(1,977)	-	(85)	-	(9,653)	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the surplus/deficit on the Provision of Services	-	-	-	-	-	-	-
Derecognition - Disposals	-	(6,910)	-	-	-	(6,910)	(169)
Derecognition - Other	-	-	-	-	-	-	-
Other movements in Depreciation and Impairment	-	-	-	-	-	-	-
At 31 March 2010	6,747	9,246	49,655	-	-	65,648	1,450
Net Book Value							
At 31 March 2010	156,533	6,851	96,851	7,303	837	268,375	36,134
At 31 March 2009	226,905	9,392	92,224	8,052	4,928	341,502	40,870

Comparative Movements in 2008/2009:

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2008	196,936	19,281	124,018	8,319	15,268	363,822	60,649
Additions	62,098	5,341	13,159	177	16,514	97,289	5,946
Donations	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	2,897	-	-	213	-	3,110	(119)
Revaluation increases/(decreases) recognised in the surplus/deficit on the Provision of Services	(33,090)	-	-	(325)	(3,708)	(37,123)	(12,472)
Derecognition - Disposals	(5,490)	-	-	-	(20,266)	(25,756)	(12,386)
Derecognition - Other	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	12,645	-	-	-	-	12,645	-
Other movements in Cost or Valuation	-	-	-	(274)	(2,879)	(3,153)	-
At 31 March 2009	235,996	24,622	137,177	8,110	4,928	410,834	41,618
Accumulated Depreciation and Impairment							
At 1 April 2008	7,265	11,258	40,652	29	-	59,204	1,238
Depreciation charge	6,030	2,553	4,128	30	-	12,741	958
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	-	(1,448)
Depreciation written out to the surplus/deficit on the Provision of Services	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the surplus/deficit on the Provision of Services	(4,250)	1,419	173	(1)	-	(2,659)	-
Derecognition - Disposals	(2)	-	-	-	-	(2)	-
Derecognition - Other	-	-	-	-	-	-	-
Other movements in Depreciation and Impairment	48	-	-	-	-	48	-
At 31 March 2009	9,091	15,230	44,953	58	-	69,332	748
Net Book Value							
At 31 March 2009	226,905	9,392	92,224	8,052	4,928	341,502	40,870
At 31 March 2008	189,673	8,023	83,366	8,290	15,268	304,620	59,411

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Infrastructure – 20 to 40 years
Vehicles, Plant and Equipment – 3 to 6 years
Land is not depreciated
Buildings depreciated over the lifespan denoted by the valuer.

Capital Commitments

As at 31st March 2011, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/2012 and future years. These commitments total £6.5m and are totalled below. Similar commitments at 31 March 2010 were £1.7m.

	Spend to Date	Committed	Estimated Total Spend
Scheme	£'000	£'000	£'000
Dormanstown Primary School	2,404	1,300	3,704
Redcar Civic and Community Heart Project *	616	656	1,272
Redcar Seafront	514	4,508	5,022
	3,534	6,464	9,998

* Commitments currently relate to fees and preparatory costs

Revaluations

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation and Principles Guidance notes, issued by the Royal Institution of Chartered Surveyors (RICS).During the year, fixed assets have been valued by both staff employed by the Council (Property and Valuation Team) and external consultants (Storeys SSP).

The Authority carries out a rolling revaluation programme which ensures that all items are revalued at least every five years.

The categories of assets revalued, and the net book value of assets revalued each year, in the rolling programme, are detailed below:

	Other Land and Buildings	Vehicles, Plant & Equipment	Surplus Assets	Total
	£'000	£'000	£'000	£'000
31 March 2011	63,089	0	0	63,089
31 March 2010	148,923	829	2,572	152,324
31 March 2009	86,229	0	17,068	103,297
31 March 2008	96,344	4,799	3,310	104,453
31 March 2007	9,117	0	255	9,372
Total	403,702	5,628	23,205	432,535

Analysis of Major Areas of Capital Spend

The tables at the beginning of this note provide details of the accounting entries for Property, Plant and Equipment.

Below is provided an analysis of the capital programme expenditure for 2010/2011, categorised by major schemes.

Regeneration

	2010/2011
	£'000
South Bank Housing	3,186
Redcar Civic and Community Heart	1,271
LEGI	925
The Hub	659
Investment in Leisure Centres and Wellness	1,257
Housing Assistance	618
Other	4,129
	12,045

Area Management

	2010/2011
	£'000
Street Lighting PFI	4,459
Purchase of Vehicles	2,442
Structural Highways Spend	1,474
ICT Projects	815
Highways Improvements	701
Safer Roads	495
Other	1,668
	12,054

Adults and Childrens

	2010/2011
	£'000
Dormanstown Primary	2,200
Devolved Capital in Schools	1,089
Disabled Facilities Grant	1,247
Childcare Capital	453
Conditions	476
Other	3,311
	8,776

Corporate

	2010/2011
	£'000
Capitalisation of Pensions and Redundancy	1,991
Other	147
	2,138

Total

	2010/2011
	£'000
Regeneration	12,045
Area Management	12,054
Adults and Childrens	8,776
Corporate	2,138
	35,013

Analysis of capital spend

	2010/2011
	£'000
Expenditure on assets	26,321
REFCUS	8,692
Total Spend	35,013

Analysis of REFCUS Spend

Revenue Expenditure Funded by Capital Under Statute is expenditure by the council classed as capital expenditure under statute, but does not result in the creation of an asset for the council. Major areas of REFCUS spend in 2010/2011 are outlined below:

	2010/2011
	£'000
Grants to individuals and organisation	906
Expenditure on Housing	1,028
Expenditure on assets not belonging to the Council	4,767
Expenditure on Pensions and Redundancy costs	1,991
	8,692

NOTE 15 – IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Note 14 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances.

NOTE 16 – CAPITAL EXPENDITURE AND CAPITAL FINANCING

Total capital expenditure in 2010/2011 of £35.013m includes the value of assets acquired under PFI contracts (£4.459m, relating to Street Lighting).

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement.

This occurs where assets are funded by borrowing. The Capital Financing Requirement therefore shows the underlying need of the authority to borrow to finance its Capital Assets.

The Capital Financing Requirement is analysed in the following table.

Expenditure Analysis

2009/2010			2010/2011	
£'000	£'000		£'000	£'000
	212,128	*Opening Capital Financing Requirement Capital Investment**		223,947
		Property, Plant and Equipment	25,783	
		Intangible Assets	387	
		Investment Properties	152	
		Assets Held	-	
		Revenue Expenditure Funded from Capital under Statute	8,692	
	41,308	Capital Investment		35,013
(1,157)		Capital Receipts	(1,342)	
(20,076)		Government grants and other contributions	(14,165)	
		Sums set aside from revenue:		
(57)		Direct revenue contributions	-	
-		MRP - Previous years adjustment (1)	2,017	
(8,199)		In Year MRP	(7,740)	
	(29,489)	Sources of Finance		(21,230)
	11,819	*Movement in Capital Financing Requirement*		13,783
	223,947	*Closing Capital Financing Requirement*		237,730
		Explanation of movement in year		
	6,326	Increase in underlying need to borrowing (supported by government financial assistance)		3,162
	8,167	Increase in underlying need to borrowing (unsupported by government financial assistance)		11,885
	-	Assets acquired under finance leases		-
	5,525	Assets acquired under PFI/PPP contracts		4,459
	20,018	*Increase/(Decrease) in Capital Financing Requirement*		19,506
	(8,199)	Reduced by Minimum Revenue Provision		(5,723)
	11,819			13,783

(1) MRP adjustment - Street Lighting PFI. See Note 50.

*These figures match to the additions line in the notes detailing movements on the non-current asset balances.

NOTE 17 – INVESTMENT PROPERTIES

The Council currently holds £14.171m of investment properties. The properties can be categorised as follows:

	2010/2011
	£'000
Properties for rental income purposes	3,880
Properties held for capital appreciation purposes	7,915
Properties where use has not yet been determined	2,376
	14,171

The majority of such properties are therefore held for the purposes of capital appreciation, or where a decision to actively market the property for sale, has not yet been made.

The Council does not account for rental income from these properties as a separate item in the Comprehensive Income and Expenditure Statement. Income and costs associated with Investment Properties are charged to the service that utilises the property.

2008/2009	2009/2010		2010/2011
£'000	£'000		£'000
6,537	14,482	Balance at start of the year	14,203
		Additions:	
-	-	Purchases	-
-	-	Construction	-
345	181	Subsequent expenditure	152
		Disposals:	
(1,760)	-	Net (gains)/losses from fair value adjustments	(32)
		Transfers:	
-	-	(To)/From Inventories	-
9,360	3	(To)/From Property, Plant and Equipment	(73)
	(463)	Other Changes	(79)
14,482	14,203	Balance at end of the year	14,171

NOTE 18 – INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on expert assessments of the period of use to the Council. The useful lives assigned to significant items are as follows:

	Life	£'000
Transformation Project	10 Years	1,529
Children's Services System	3 Years	282
Other IT Software	10 Years	507
Other IT Software	3 Years	140
		2,458

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.506m was allocated as follows:

	£'000
Children's Services	225
Business Improvement	201
IT Management and Support	53
Other	27
	506

The movement on Intangible Asset balances during the year is as follows:

2009/2010		2010/2011
IT Assets		IT Assets
£'000		£'000
7,277	Net carrying amount at start of year	2,577
	Additions:	
1,611	- Purchases	387
(146)	Disposals	-
(5,339)	Impairment losses recognised or reversed directly in the Revaluation Reserve	-
(826)	Amortisation for the period	(506)
-	Other changes	-
2,577	**Net carrying amount at end of year**	2,458

NOTE 19 – LONG TERM INVESTMENTS

Value at 31 March 2009				Value at 31 March 2010	Value at 31 March 2011	Gain/(Loss) on Revaluation
£'000				£'000	£'000	£'000
	The Investments consist of:					
785	Shares in	**Durham Tees Valley Airport Ltd**	(Ordinary Shares)	640	347	(293)
313		**SITA Tees Valley Limited**	(Loan Shares)	313	313	-
1,098				953	660	(293)

The long term investment in Durham Tees Valley Airport Ltd has been revalued as a result of losses incurred during recent financial years, resulting in a reduction of £0.293m.

The investment in SITA Tees Valley Limited relates to preference shares only. As such the Council is not entitled to the retained profits of the company. The valuation of the shares, based upon trading results, is unlikely to change.

NOTE 20 – LONG TERM DEBTORS

The Council's Long Term Debtors include mortgage advances and car loan advances to employees in excess of 12 months. The balances are increased by payments made to borrowers and car loans advanced to employees, and reduced as the debt is repaid.

In August 2007, the Council made a loan of £0.200m to Tees Valley Leisure Limited (TVLL) under "well being" provisions in accordance with the Local Government Act 2000. This was approved by Cabinet on 28 August 2007 and is due to be repaid by TVLL over 10 years.

Details are given below:

	Balance 31 March 2009	Balance 31 March 2010	Total Spend	Disposals/ Transfers	Amounts Written Off/ Repaid	Balance 31 March 2011
	£'000	£'000	£'000	£'000	£'000	£'000
Car Loans	195	417	411	-	(368)	460
Private Mortgages	56	33	-	-	(9)	24
Loan to leisure service provider	188	170	3	-	(21)	152
Total	439	620	414	-	(398)	636

NOTE 21 – FINANCIAL INSTRUMENTS

Financial instruments are defined as transactions that lead to the recognition of a financial asset or financial liability.

For the Council, these transactions generally fall under Treasury Management Activities.

Treasury Management is defined by CIPFA as "the management of the Council's cash flows, its banking, money market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".

The Council has adopted the CIPFA Code of Practice on Treasury Management. This code provides a framework of operating procedures for an authority to follow. The framework is designed to reduce the risks associated with Treasury Management activities, improve understanding of treasury and increase accountability.

The notes below provide details of the Council's Treasury Management activities, and show how the Council manages the risks associated with these activities.

Further details can be found in the Treasury Management Outturn report and the Treasury Management Strategy Statement.

Financial Instruments: Balances

The borrowings and investments disclosed in the balance sheet are made up of the following categories of Financial Instruments.

		Long-term			Current		
		31 March 2011	31 March 2010	1 April 2009	31 March 2011	31 March 2010	1 April 2009
		£'000	£'000	£'000	£'000	£'000	£'000
Financial Liabilities (Principal Amount)							
Loans with PWLB		(44,888)	(39,906)	(41,125)	(5,018)	(2,020)	(5,020)
Market Loans		(105,350)	(105,350)	(105,350)	-	-	-
Annuities		-	-	(87)	-	-	(6)
Accrued Interest							
Loans with PWLB		-	-	-	(237)	(133)	(63)
Market Loans		-	-	-	(1,614)	(1,630)	(1,631)
Annuities		-	-	-	-	-	(1)
Financial Liabilities at Amortised Cost		(150,238)	(145,256)	(146,562)	(6,869)	(3,783)	(6,721)
PFI and Finance Lease Liabilities							
PFI	(1)						
Schools		(44,355)	(45,156)	(45,894)	(801)	(738)	(704)
Offices		(6,752)	(7,026)	(7,272)	(268)	(245)	(231)
Street Lighting		(19,579)	(13,215)	(7,213)	(279)	56	(660)
		(70,686)	(65,397)	(60,379)	(1,348)	(927)	(1,595)
Finance Leases	(2)	(373)	(849)	(1,311)	(477)	(461)	(515)
Creditors	(3)	(113)	-	-	(42,183)	(41,858)	(33,558)
Other Long Term Liabilities		(71,172)	(66,246)	(61,690)	(44,008)	(43,246)	(35,668)
Loans and Receivables (Principal amounts)							
Short Term Deposits	(4)	-	-	-	13,000	-	23,520
Impaired Investments	(5)	-	-	-	1,636	2,506	3,755
Accrued Interest		-	-	-	131	-	238
Loans and Receivables at Amortised Cost		-	-	-	14,767	2,506	27,513
Debtors	(6)	636	620	439	11,587	17,394	12,490
Available for Sale Financial Assets	(7)	660	953	1,098	-	-	-

The 1 April 2009 figures restate the Balance Sheet under transition to IFRS. The following references will assist in understanding these figures:

(1) See Note 48 on PFI schemes
(2) See Notes 1 and 47 on restatement of IFRS balances and Leasing
(3) See Note 26 on Creditors - Creditors are included at contract cost. Creditors figure is reduced by PFI/ Finance lease figures disclosed separately on the above note.
(4) As outlined in Note 1, IFRS defines Investments as those made for over 90 days. Investments for less than 90 days are treated as cash equivalents.
(5) See Notes 21 and 31 on Impairment of Financial Instruments and Financial Instruments Adjustment Account
(6) See Notes 20 and 24 on Debtors - Debtors are included at contract cost. Debtors only includes non-statutory balances.
(7) See Note 19 on Long Term investments

The council borrowed £10m to finance capital expenditure in 2010/2011. The note on Capital Financing provides details of capital expenditure and how it was funded. The note below on Financial Instruments: Risks provides details on the maturity structure of the Council's debt.

Financial Instruments: Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to Financial Instruments are made up as follows:

		Financial Liabilities	Financial Assets		
		Liabilities measured at amortised cost	Loans and receivables	Available-for-sale Assets	Total
		2010/2011	2010/2011	2010/2011	2010/2011
		£'000	£'000	£'000	£'000
Interest expense		(15,768)	-	-	(15,768)
Impairment (losses)/gains	(1)	-	354	-	354
Total Expense in Surplus/Deficit on the provision of services		(15,768)	354	-	(15,414)
Interest income	(2)	-	439	-	439
Gains on derecognition		-	-	-	-
Total Income in Surplus/Deficit on the provision of services		-	439	-	439
Gains on revaluation		-	-	-	-
Losses on revaluation		-	-	(1)	(1)
Amounts recycled to the I&E Account after impairment		-	-	-	-
Surplus/(Deficit) Arising on revaluation of financial assets in Other Comprehensive Income and Expenditure		-	-	(1)	(1)
Net gain/(loss) for the year		(15,768)	793	(1)	(14,975)
Memo item:					
Losses on derecognition of Impaired Financial Asset	(3)	-	(22)	-	(22)
Total Amount written off through Movement in Reserves Statement		-	(22)	-	(22)

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale Assets	Total
	2009/2010	2009/2010	2009/2010	2009/2010
	£'000	£'000	£'000	£'000
Interest expense	(15,866)	-	-	(15,866)
Impairment (losses)/gains	-	868	-	868
Total Expense in Surplus/Deficit on the provision of services	(15,866)	868	-	(14,998)
Interest income	-	489	-	489
Gains on derecognition	-	-	-	-
Total Income in Surplus/Deficit on the provision of services	-	489	-	489
Gains on revaluation	-	-	-	-
Losses on revaluation	-	-	(145)	(145)
Amounts recycled to the I&E Account after impairment	-	-	-	-
Surplus/(Deficit) Arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	(145)	(145)
Net gain/(loss) for the year	(15,866)	1,357	(145)	(14,654)

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale Assets	Total
	2008/2009	2008/2009	2008/2009	2008/2009
	£'000	£'000	£'000	£'000
Interest expense	(14,511)	-	-	(14,511)
Premium	-	-	-	-
Losses on derecognition	-	-	-	-
Impairment losses	-	(2,477)	-	(2,477)
Total Expense in Surplus/Deficit on the provision of services	(14,511)	(2,477)	-	(16,988)
Interest income	-	2,806	-	2,806
Gains on derecognition	-	-	-	-
Total Income in Surplus/Deficit on the provision of services	-	2,806	-	2,806
Gains on revaluation	-	-	-	-
Losses on revaluation	-	-	(39)	(39)
Amounts recycled to the I&E Account after impairment	-	-	-	-
Surplus/(Deficit) Arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	(39)	(39)
Net (gain)/loss for the year	(14,511)	329	(39)	(14,221)

(1) The positive figure for impairment losses in 2009/2010 and 2010/2011 relates to the Council's Icelandic investments. The adjustment takes into account the improved recoverable amount from these investments, and adjusts the amount previously written off in the income and expenditure statement.

(2) The figure for interest earned is shown net of contributions to provisions/reserves. The interest earned from Treasury Management Activities was £0.450m.

(3) The loss on derecognition relates to the remaining balance held in the Financial Instruments Adjustment Account (FIAA) for Icelandic investments, once the impaired recoverable amount is taken into account.

As the full amount of the impairment has previously been recognised in the Comprehensive Income and Expenditure Statement, the adjustment of £0.022m is written off directly from the FIAA through the movement in reserves statement.

For additional detail please see the note on the Impairment of Financial Assets, and the detailed analysis of the FIAA.

Financial Instruments: Fair Value of Assets and Liabilities

Financial liabilities and financial assets, represented by loans and receivables, are carried in the Balance Sheet at amortised cost. The fair value of these instruments can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments.

The “fair value” represents the price that could be received (for an asset) or the payment that would need to be made to settle a liability. It is the fair price that could be negotiated between parties.

The fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using an appropriate discount rate.

For non-PWLB debt and loans and receivables, the discount rate used in the net present value (NPV) calculation is equal to the current rate for the same instrument from a comparable lender or a similar instrument with a published marked value. The fair value amounts include accrued interest.

In the case of PWLB debt, the new borrowing rate has been used as the discount factor. The fair value amount includes accrued interest.

No early repayments have been recognised in the accounts. However the Council has recognised an impairment relating to the Icelandic bank investments. See detailed note on the impairment of financial assets.

Where an instrument has a maturity of less than 12 months the fair value is taken to be the principal outstanding. The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value of creditors, trade and other receivables is taken to be the contract amount.

The fair values calculated are as follows:

Carrying Amount 31 March 2009 £'000	Fair Value 31 March 2009 £'000	Carrying Amount 31 March 2010 £'000	Fair Value 31 March 2010 £'000		Carrying Amount 31 March 2011 £'000	Fair Value 31 March 2011 £'000
46,208	47,582	42,060	48,695	PWLB debt	50,144	48,932
107,076	149,018	106,980	161,069	Non-PWLB debt	106,964	162,683
153,284	196,600	149,040	209,764	Total debt	157,108	211,615
35,668	35,668	43,246	43,246	Creditors	44,121	44,121
188,952	232,268	192,286	253,010	Total financial liabilities	201,229	255,736
27,993	27,993	2,506	2,506	Long and short term investments	14,767	14,798
12,490	12,490	17,394	17,394	Debtors	11,587	11,587
40,483	40,483	19,900	19,900	Total loans and receivables	26,354	26,385

The table above shows that the Council’s fair value for financial liabilities is significantly greater than the carrying amount. This is due to the rates being paid for non-PWLB debt being higher than the current rate available for similar borrowing as at 31 March. This means that in order to repay that debt early, the Council would incur costs higher than the carrying value of the loan. This leaves the Council with little scope for restructuring this long term debt in order to achieve interest rate savings.

The Council had no long term investments for treasury management purposes as at 31 March 2011.

Financial Instruments: Risks

The Council's activities expose it to a variety of financial risks, the key risks being:

(a) Credit risk - the possibility that other parties might fail to pay the amounts due to the Council.
(b) Liquidity risk - the possibility that the Council may not have the funds available to meet its payment commitments.
(c) Re-financing risk - the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
(d) Market risk - the possibility that changes in such measures as interest rate changes might result in financial loss to the Council.

The Council's procedures for management of those risks focus on the unpredictability of financial markets and implement suitable controls to minimise the risks. The Local Government Act 2003 and associated regulations set out the legal framework for risk management procedures. Accordingly the Council has formally adopted the CIPFA Prudential Code. On an annual basis the Council approves, in advance, prudential indicators for the following three years which limits:

- the Council's overall borrowing
- the Council's maximum exposures to fixed and variable rates
- the Council's maximum and minimum exposures of the maturity structure of its borrowing
- the Council's maximum annual exposures to investments which mature beyond one year.

In addition the Council also approves the investment strategy for the forthcoming year which sets out the criteria for investing, the use of specified and non-specified investments and the selecting and monitoring of approved counterparties.

The Council maintains written policies and principles for managing risk through the Treasury Management Practices which are reviewed on a regular basis.

(a) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy. The Investment Strategy for 2010/2011 was approved by the full council on 1 March 2010. Details of the Investment Strategy can be found on the Council’s website.

The Council is currently limited to investing in UK domiciled banks

This Council uses the creditworthiness service provided by Sector, the Council's Treasury Management Advisors. This service uses a sophisticated modelling approach with credit ratings from all three major rating agencies, Fitch, Moodys and Standard and Poors, forming the core element.

However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings

The Annual Investment Strategy also considers maximum amounts and time limits for deposits in respect of each financial institution.

In 2008/2009, the Council suffered from a default on £6m of investments with Icelandic banks based in the UK. Full details of the impairment of these investments, including the expected recoverable amount, impact on the Council and accounting treatment are included in the notes on Impairment of Investments and the Financial Instruments Adjustment Account, along with Financial Instruments Gains and Losses.

The Council’s maximum exposure to credit risk in relation to its investments in banks and building societies of £32.629m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council’s deposits, but there was no evidence at 31 March 2011 that this was likely to crystallise.

Deposits with banks and financial institutions (not including accrued interest)	Amount at 31 March 2011	Historical experience of default	Adjustment for market conditions at 31 March 2011	Estimated maximum exposure to default
	£’000s	%	%	£’000s
	A	B	C	A x C
AA and above rated counterparties	-	0.00	0.00	-
AA rated counterparties	32,629	0.03	0.03	10
A to AA rated counterparties	-	0.08	0.08	-
BBB rated counterparties	-	0.24	0.24	-
Other Counterparties	-	-	-	-
Total	32,629	-	-	10

Icelandic Bank investments of £6m have been excluded from the above table as default on payment has already occurred.

No breaches of the Councils counterparty criteria occurred during the reporting period.

The Council does not expect any losses from non-compliance by any of its counterparties in relation to deposits, apart from the ongoing issue in respect of Icelandic Banks.

The Council does not generally allow credit for customers, such that £0.974m of the £3.554m debtors invoices balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than one month	2,580
One to three months	142
Three to six months	71
Six months to one year	216
More than one year	545
Total	3,554

As the Council maintains a bad debt provision for debts based on dispute code, no further assessment of the fair value has therefore been made. The amounts are carried on the Balance Sheet at their amounts outstanding and no amounts have been included in the table above for the Council's exposure to default. The £3.554m above relates to invoiced debt only and is an element of the debtor total in Note 24

(b) Liquidity Risk

The Council has ready access to borrowings from the Money Markets to cover day to day cash flow need and the Public Works Loan Board (PWLB) provides access to longer term funds. The Council is also required to produce a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. There is the risk that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. However, this risk has been mitigated through the management of the maturity structure of its borrowings.

The Council manages its liquidity position through the risk management procedures of the setting and approval of prudential indicators and the approval of the treasury management and investment strategy reports, as well as through the cash flow procedures required by the Code of Practice.

The Council utilises 'call accounts' that provide sufficient liquidity to meet its short term creditor and cash payment commitments.

c) Refinancing and Maturity Risk

The Council maintains a debt and investment portfolio. The longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature which may be at times of unfavourable interest rates.

Period	Approved Limits		31 March 2011			
			Assumed no “Calls”		Assumed “Calls”	
	Lower	Upper	£’000	%	£’000	%
Less than 1 year		10%	5,018	3%	22,018	14%
Between 1 and 2 years		15%	3,000	2%	21,000	14%
Between 2 and 5 years		25%	19,000	12%	89,350	57%
Between 5 and 10 years		40%	13,131	8%	13,131	8%
More than 10 years	20%	100%	115,381	75%	10,031	7%
Total			155,530	100%	155,530	100%

The approved prudential indicator limits for the maturity structure of borrowing and the limits placed on investments for greater than one year are the key parameters used to address this risk. The Council's strategy is to ensure that not more than 20% of loans are due to mature within any rolling three-year period and the approach taken to monitor the risk includes:

- monitoring the maturity profile of financial liabilities and amending the profile through new borrowing or rescheduling of existing debt,

- monitoring the maturity profile of investments in relation to the Council's day to day and longer term cash flow needs.

A large proportion of the Council's loans are held in the form of LOBO (Lender Option Borrower Option) loans from the money markets. These loans are subject to periodic "Calls" from the lender. Where the lender decides to "Call" a loan, they increase the interest rate of the loan and the Council then has the opportunity to accept the increased rate or to repay the loan.

As part of the analysis of the maturity structure, the Council and its advisers take into account the likelihood of loans being called in determining where they sit in the maturity structure above. The structure showing all loans being called represents a substantial refinancing risk. However, the likelihood of these loans being called is currently assessed as very low. This is due to the relatively high rates of interest that these loans run at currently, compared to the market rates available. See note on Fair Value of Financial Assets and Liabilities for details.

d) Market Risk

(i) Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments.

The treasury management team has a strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year.

The annual Treasury Management Strategy brings together the Council's prudential indicators and its expected treasury operations. From this strategy a prudential indicator is set which provides an upper limit for fixed and variable interest rate exposure. The policy is to aim to keep a maximum of 25% of its borrowings in variable rate loans.

Currently, all loans are fixed rate.

Any movement in interest rates therefore has an impact on the fair value of financial instruments. As financial instruments are carried in the balance sheet at

amortised cost, gains or losses on fixed rate instruments have no impact on the Balance Sheet or Comprehensive Income and Expenditure Statement.

Based on the financial liabilities and assets as at the balance sheet date, a one percentage point movement in interest rates will have the following effects:-

	£'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	-
Impact on Comprehensive Income and Expenditure Statement	-
Decrease in fair value of fixed rate investment assets	-
Impact on Comprehensive Income and Expenditure Statement	-
Decrease in fair value of fixed rate borrowings	1,855
No impact on Comprehensive Income and Expenditure Statement	

The approximate impact of a 1% fall in interest rates would be as above but with the movement being reversed.

The impact is currently limited. The Council's investments as at 31st March 2011 are detailed in the note on Financial Instruments Balances. The movement on fixed term deposits is £0.045m and would not impact on the CIES. The investments with Iceland are currently part of an ongoing administration process. They are not included in this calculation.

The borrowings are at fixed rates subject to varying call periods. The decrease in fair value of fixed rate borrowings of £1.855m represents 29% of the Council's General Fund balances.

(ii) Price Risk

The Council does not invest in equity shares but does have shareholdings in Durham Tees Valley Airport Limited (£0.348m) and SITA Tees Valley Limited (£0.313m). These shares are all classified as Available-for-Sale, meaning that all movements in price will impact on unrealised gains and losses recognised in the Comprehensive Income and Expenditure Statement. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £0.033m gain or loss being recognised in the Available for Sale Reserve for 2010/2011.

(iii) Foreign Currency Risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

Financial Instruments: Impairment of Investments

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £6m deposited across two of these institutions, with varying maturity dates and interest rates as follows:

Investments included in the Balance Sheet include the following that have been impaired because of the financial difficulties being experienced by Icelandic banks.

Bank	Date Invested	Maturity Date	Amount Invested	Interest Rate	Interest	Total Value of Investment	Total Value of Claim 07/10/2008
			£'000	%	£'000	£'000	£'000
Kaupthing Singer and Friedlander	22/5/2008	21/5/2009	2,000	6.15	106	2,106	2,047
Heritable	1/10/2008	13/2/2009	4,000	6.37	126	4,126	4,004
Total			6,000		232	6,232	6,051

The amount reclaimed covers principal and interest accrued up to 7 October 2008.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Council will be determined by the administrators / receivers.

The commentary and tables below outline the prudent accounting treatment of these investments by the Council.

Kaupthing Singer and Friedlander Ltd

Kaupthing Singer and Friedlander Ltd is a UK registered bank under English law. The company was placed in administration on 8 October 2008, and original estimates suggested that 50% recovery would be made. To date, the council has received £1.085m, representing 53% of the amount claimed. According to the latest administrators reports, the Council expects to recover 82% of the claim, with future predictions of payments as follows:

Future payments are projected as follows:

	%
May 2011	5%
January 2012	8%
July 2012	8%
January 2013	8%
Total	29%

Heritable Bank

Heritable bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. At this time, the total amount to be received was estimated by the administrators, Ernst and Young, to be between 70-80%.

To date, the Council has recovered £2.257m, 56% of the amount claimed. The council expects to recover a total of 85% of the claim.

The remaining payments are expected to fall as follows:

	%
July 2011	6.25%
October 2011	5.00%
January 2012	5.00%
April 2012	5.00%
July 2012	5.00%
October 2012	3.65%
Total	29.90%

Accounting for Icelandic Investments – 2010/2011

	Total Value of Investment	Carrying Amount	Received in year	Interest	Impairment
Bank	£'000	£'000	£'000	£'000	£'000
Kaupthing Singer and Friedlander	2,106	554	1,085	106	(467)
Heritable	4,126	1,082	2,257	126	(788)
Total	6,232	1,636	3,342	232	(1,254)
		(a)	(b)		
Predicted total recoverable		(a) + (b)	4,978		

Due to the amounts received to date (£3.342m) and revised assumptions on the discounted future cashflows relating to these investments (the carrying amount) the Council anticipates recovering £4.978m from these investments.

The impairment loss recognised in the Income and Expenditure Account in 2008/2009 was £2.477m. Under regulation, the Council was able to transfer an amount to the Financial Instruments Adjustment Account. The amount transferred of £1.245m was made up of the impairment value of £2.477m, less an interest adjustment of £0.232m, and £1m from general working balances.

In 2009/2010, the revised assumptions and cash receipts resulted in a reduction in the impairment of these assets of £0.868m. In 2010/2011, this impairment was reduced further by £0.354m.

This leaves an impairment to carry forward of £1.023m as follows:

	Amount Transferred to Financial Instruments Adjustment Account 2008/2009	Adjustment to Impairment 2009/2010	Adjustment to Impairment 2010/2011	Impairment Remaining 2010/2011
Bank	£'000	£'000	£'000	£'000
Kaupthing Singer and Friedlander	1,083	(469)	(253)	361
Heritable	1,162	(399)	(101)	662
Use of Council revenue reserves	(1,000)	-	-	(1,000)
Total	1,245	(868)	(354)	23

Under the regulations, the Council must transfer the balance on the Financial Instruments Adjustment Account (FIAA) to the General Fund no later than 31 March 2011.

This means that the remaining amounts of £0.361m and £0.662m must be written off in year. As the Council has already written off £1m from balances, the remaining amount to be written off is £0.023m.

This will be charged through the movement in reserves statement against general fund balances.

NOTE 22 – ASSETS HELD FOR SALE

Assets held for sale are those properties that are currently marketed and anticipated will be sold within 12 months of the reporting period.

2008/2009	2009/2010		2010/2011
£'000	£'000		£'000
20,194	2,111	**Balance outstanding at start of year**	1,760
		Assets newly classified as held for sale	
-	888	- Property, Plant and Equipment	-
-	-	- Intangible Assets	-
-	-	- Other assets/liabilities in disposal groups	-
-	(1,072)	Revaluation losses	-
89	27	Revaluation gains	-
-	-	Impairment losses	-
		Assets declassified as held for sale:	
(18,852)	-	- Property, Plant and Equipment	(888)
-	-	- Intangible Assets	-
-	-	- Other assets/liabilities in disposal groups	-
(542)	(194)	Assets sold	-
-	-	Transfers from non-current to current	-
1,222	-	Other movements	-
2,111	1,760	**Balance outstanding at year end**	872

NOTE 23 – INVENTORIES

	Balance at 1 April 2010	Purchases	Recognised as an expense in the year	Written off balances	Reversals of write-offs in previous years	Balance at 31 March 2011
	£'000	£'000	£'000	£'000	£'000	£'000
Stocks	156	2,437	(2,451)	(16)	-	126
Work In Progress	-	-	-	-	-	-
Total Stocks and Work In Progress	156	2,437	(2,451)	(16)	-	126

	Balance at 1 April 2009	Purchases	Recognised as an expense in the year	Written off balances	Reversals of write-offs in previous years	Balance at 31 March 2010
	£'000	£'000	£'000	£'000	£'000	£'000
Stocks	149	2,516	(2,502)	(7)	-	156
Work In Progress	-	-	-	-	-	-
Total Stocks and Work In Progress	149	2,516	(2,502)	(7)	-	156

Stocks held relate to Catering, Library, Vehicle Fleet & Maintenance, Museums and Tourist Information activities and Postage.

NOTE 24 – DEBTORS

31 March 2009	31 March 2010		31 March 2011
£'000	£'000		£'000
		Amounts falling due in one year:	
5,246	6,582	Central government bodies	4,734
2,280	1,667	Other local authorities	841
54	711	NHS Bodies	173
7,763	6,578	Council Tax payers	6,519
2,078	-	NNDR payers	-
4,963	5,387	Payments in advance	4,990
3,652	6,327	Other entities and individuals	3,979
2,401	2,096	Private Tenants Housing Benefits overpaid	2,716
75	182	Car loans	244
28,512	29,530		24,196
		Provision for Doubtful Debts:	
(236)	(291)	General	(108)
(5,157)	(4,245)	Council Tax payers	(4,443)
(1,642)	-	NNDR payers	-
(1,224)	(919)	Private Tenants Housing Benefits overpaid	(1,539)
20,253	24,075		18,106

NOTE 25 – CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2009	31 March 2010		31 March 2011
£'000	£'000		£'000
94	96	Cash held by the Council	74
(772)	(1,198)	Bank current accounts	324
12,696	24,859	Short term deposits with Building Societies	19,881
12,018	23,757	Total Cash and Cash Equivalents	20,279

NOTE 26 – CREDITORS

31 March 2009	31 March 2010		31 March 2011
£'000	£'000		£'000
(6,596)	(8,699)	Income in advance	(9,042)
(4,112)	(6,432)	Capital Grants in advance	(9,496)
(4,434)	(4,583)	Central government bodies	(2,805)
(2,745)	(2,785)	Other local authorities	(2,107)
(84)	(58)	NHS Bodies	(49)
-	-	Public corporation and trading funds	-
(20,112)	(20,548)	Other entities and individuals	(20,383)
(38,083)	(43,105)	Total	(43,882)

NOTE 27 – PROVISIONS

	Balance at 1 April 2010	Additional Provisions made in 2010/2011	Amounts used in 2010/2011	Unused amounts reversed in 2010/2011	Unwinding of discounting in 2010/2011	Balance at 31 March 2011
	£'000	£'000	£'000	£'000	£'000	£'000
Short Term:						
ER/VR Restructure Costs 2010/2011	-	(506)	-	-	-	(506)
Equal Pay Provision	-	(1,000)	-	-	-	(1,000)
BMW Landfill Usage	(33)	(163)	-	-	-	(196)
Short Term Accumulating Compensated Absences	(3,629)	(458)	-	-	-	(4,087)
	(3,662)	(2,127)	-	-	-	(5,789)
Long Term:						
Insurance Provision	(1,379)	(690)	490	-	-	(1,579)
Equal Pay Provision	(5,419)	-	1,166	-	-	(4,253)
	(6,798)	(690)	1,656	-	-	(5,832)
Total	(10,460)	(2,817)	1,656	-	-	(11,621)

	Balance at 1 April 2009	Additional Provisions made in 2009/2010	Amounts used in 2009/2010	Unused amounts reversed in 2009/2010	Unwinding of discounting in 2009/2010	Balance at 31 March 2010
	£'000	£'000	£'000	£'000	£'000	£'000
Short Term:						
ER/VR Restructure Costs 2010/2011	-	-	-	-	-	-
Equal Pay Provision	-	-	-	-	-	-
BMW Landfill Usage	(15)	(18)	-	-	-	(33)
Short Term Accumulating Compensated Absences	(3,443)	(186)	-	-	-	(3,629)
	(3,458)	(204)	-	-	-	(3,662)
Long Term:						
Insurance Provision	-	(1,924)	545	-	-	(1,379)
Equal Pay Provision	(4,381)	(1,929)	891	-	-	(5,419)
	(4,381)	(3,853)	1,436	-	-	(6,798)
Total	(7,839)	(4,057)	1,436	-	-	(10,460)

As defined by IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) a provision is a monetary sum set aside in respect of a known event which may occur, and for which the timing is uncertain but the actual financial liability is known with some degree of confidence.

Business improvement is an ongoing activity across the Council and during 2010/2011, the Council undertook a major restructuring programme, which resulted in a number of employees electing to take either voluntary redundancy or early retirement. The ER/VR Restructure Costs provision relates to the ongoing funding of redundancy and early retirement costs relating to the 2010/2011 restructure.

The Council implemented a single pay structure for all employees from 1st April 2004. As a result of this, claims have been received from both previous and present employees in relation to back dated pay claims on the basis of discrimination. Based on the current number of outstanding

claims, payments to date and expected average payouts, a provision of £5.253m has been made.

As equal pay is classed by central government as an exceptional 'revenue' expense, capitalisation directives have been granted over the last three financial years (£0.021m in 2009/2010). This allows the Council the ability to fund the provision from capital resources. In total the Council has used £2.849m of capital directions to establish the current provision. The remaining £2.569m is deferred from the General Fund Balance under the Capital Finance & Accounting (Amendment) Regulations 2007 by the creation of an Equal Pay Back Pay account. This will be written down against the General Fund Balance once any further claims are paid.

The Waste and Emissions Trading Act 2003 places a duty to waste disposal authorities to reduce the amount of Biodegradable Municipal Waste (BMW) disposal to landfill. The act also provides the legal framework for Landfill Allowances Trading Scheme (LATS). The scheme allocates landfill allowances to each waste disposal authority to be set against its verified BMW landfill usage. An authority is able to trade any surplus allowances with potential buyers in the market.

Under the terms of the scheme, landfill usage is verified and the resulting liability settled after the year end. The corresponding estimated liability to the Department for Environment, Food and Rural Affairs is included in the balance sheet as a provision.

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay. Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year and the corresponding liability is included in the balance sheet as a provision.

The Insurance Fund was established in 1996 to provide for all payments that fall within the policy excess on claims. The excess on liability of £0.100m covers any public, employers, officials and professional indemnity and libel and slander liability claims. The property excess of £0.050m covers claims relating to schools, the motor excess of £0.020m relates to own damage only. The Insurance Fund has been classified as a provision in 2009/2010 as the claims covered by the fund have already been incurred and the costs are known with some certainty.

NOTE 28 – LONG TERM CREDITORS

The Council's Long Term Creditors include Section 38 agreements, commuted sums and gypsy site bonds. In 2010/2011 these were reclassified from Creditors to Long Term Creditors, as the individual agreements cover a period of greater than a year.

Details are given below:

	Balance at 31 March 2009	Balance at 31 March 2010	Income	Expenditure	Balance at 31 March 2011
	£'000	£'000	£'000	£'000	£'000
Section 38 Agreements	(111)	(104)	(9)	-	(113)
Commuted Sums	(253)	(139)	(36)	50	(125)
Gypsy Site Bonds	(1)	(1)	-	-	(1)
Total	(365)	(244)	(45)	50	(239)

Section 38 agreements relate to the creation of new highways upon land in the ownership of anyone other than the highway authority. It is an agreement between the land owner and the

council for the construction of new highway and the ultimate adoption by the council as a public highway. The agreement secures a bond for the cost of the works, to enable completion of the works by the council upon default by the developer. There are currently 5 such agreements in place.

Commuted sums are held by the Council to fund future years expenditure, over a set period of time, for example 10 years. There are currently 6 such sums held by the Council and they cover tree works, safety maintenance and playgrounds.

Before occupation of a pitch on Council gypsy sites, a bond must be paid. The bond will be returned when the occupant leaves the site, provided there are no outstanding charges or no damage has been incurred.

NOTE 29 – GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/2011:

2009/2010		2010/2011
£'000		£'000
	Credited to Taxation and Non Specific Grant Income	
55,554	Council Tax Income	56,963
54,166	Distribution from Non-domestic Rates	59,998
	Non-ring fenced Government Grants:	
12,502	Revenue Support Grant	8,712
62	Local Area Business Growth Incentive Grant	-
-	Local Public Service Area Reward Grant	2,102
16,215	Area Based Grant	16,472
7,123	PFI Grant	7,123
589	Housing and Planning Delivery Grant	-
-	Learning Disability Social Care Funding	1,866
14,586	Capital Grants and Contributions	8,372
160,797	**Total**	161,608
	Credited to Services	
88,811	Dedicated Schools Grant	87,423
1,799	D.S.S. Benefits Admin Grant	1,659
60,969	Housing Benefits	66,001
19,930	Standards Fund/School Standard Grant	15,047
6,865	Surestart	7,411
185	Local Area Grant	261
182	N.N.D.R. Admin Grant	180
2,727	Supporting People	129
130	Department for Culture, Media & Sport	44
1,152	Department for Children, Schools & Families	1,064
54	GONE	-
165	Contact Point	37
-	Future Jobs Fund	1,353
-	European Social Fund	327
929	Department of Health	1,222
569	Home Office	1,520
408	Department for Environment, Food and Rural Affairs	346
443	Department for Transport	476
1,668	Department for Communities & Local Government	1,939
-	Winter Damage Grant	198
4,633	Young Persons Training Agency	11,302
1,826	Diocese Contribution	1,833
3,404	Health Authorities	2,796
1,359	Other Local Authorities	1,460
2,189	Other Grants and Contributions	2,623
106	Donations	249
200,503	**Total**	206,900

The council has a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year end are as follows:

31 March 2010 £'000		31 March 2011 £'000
	Revenue Grants Receipts in Advance	
3,183	Standards Fund/School Standard Grant	2,377
38	Surestart	538
38	Local Area Grant	-
-	Supporting People	10
-	Department for Children, Schools & Families	150
31	Contact Point	-
-	Future Jobs Fund	397
-	Department of Health	279
77	Department for Transport	-
273	Department for Communities & Local Government	130
-	Winter Damage Grant	407
222	Young Persons Training Agency	177
2,255	Health Authorities	1,569
348	Other Grants and Contributions	381
6,465	**Total**	6,415

31 March 2010 £'000		31 March 2011 £'000
	Capital Grants Receipts in Advance	
1,172	LEGI	646
1,095	Eco Park	3,208
365	Growth Point Funding	608
324	Extra Care Housing	324
2,240	Primary Capital Programme	2,296
528	Devolved Capital	511
-	Modernisation	497
2,304	Other Grants and Contributions	2,062
8,028	**Total**	10,152

NOTE 30 – USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

NOTE 31 – UNUSABLE RESERVES

31 March 2009 £'000	31 March 2010 £'000		31 March 2011 £'000
25,585	16,537	Revaluation Reserve	17,493
1,098	953	Available for Sale Financial Instruments Reserve	660
127,902	46,635	Capital Adjustment Account	22,215
(6,083)	(5,840)	Financial Instruments Adjustment Account	(5,213)
35	27	Deferred Capital Receipts	22
(92,034)	(163,605)	Pensions Reserve	(75,075)
130	(32)	Collection Fund Adjustment Account	32
(661)	(2,569)	Unequal Pay Back Pay Account	(2,569)
(3,443)	(3,629)	Accumulating Compensated Absences Adjustment Account	(4,086)
52,529	(111,523)	**Total Unusable Reserves**	(46,522)

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised,

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created, Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2008/2009 £'000		2009/2010 £'000			2010/2011 £'000	
	15,582		25,585	**Balance at 1 April**		16,536
11,414		6,176		Upward revaluation of assets and impairment	2,711	
(437)		(9,240)		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(943)	
	10,977		(3,064)	(Surplus)/Deficit on revaluation of non-current assets no posted to the Surplus/Deficit on the Provision of Services		1,768
(923)		(1,789)		Difference between fair value depreciation and historic cost depreciation	(736)	
(51)		(4,195)		Accumulated gains on assets sold or scrapped	(154)	
-		-		Non current assets direct to Capital Adjustment Account	79	
	(974)		(5,984)	Amounts written off to the Capital Adjustment Account		(811)
	25,585		16,537	**Balance at 31 March**		17,493

Available for Sale Financial instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

2008/2009	2009/2010		2010/2011
£'000	£'000		£'000
1,138	1,098	**Balance at 1 April**	953
-	-	Upward revaluation of investments	-
(40)	(145)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(293)
-	-	Accumulated gains on assets sold and maturing assets written out of the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
1,098	953	**Balance at 31 March**	660

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2008/2009		2009/2010			2010/2011	
£'000		£'000			£'000	
	143,398		127,902	**Balance at 1 April**		46,635
				Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(64,605)		(42,893)		• Charges for depreciation and impairment of non current assets	(12,750)	
(15,318)		(12,080)		• Revaluation losses on Property, Plant and Equipment	(12,307)	
-		-		• Amortisation of intangible assets	(506)	
(8,548)		(11,816)		• Revenue expenditure funded from capital under statute	(8,692)	
(6,030)		(44,542)		• Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(11,385)	
	(94,501)		(111,331)			(45,639)
	1,124		587	Adjusting amounts written out of the Revaluation Reserve		-
	(93,377)		(110,744)	Net written out amount of the cost of non current assets consumed in the year		(45,639)
				Capital financing applied in the year:		
2,246		1,157		• Use of the Capital Receipts Reserve to finance new capital expenditure	1,342	
353		-		• Capital Financing Reserve	-	
72		57		• Direct Revenue Financing	-	
(3)		(11)		• Write down long term debtor/capital receipt deferred	(11)	
68,021		20,075		• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	14,165	
-		-		• Application of grants to capital financing from the Capital Grants Unapplied Account	-	
7,192		8,199		• Statutory provision for the financing of capital investment charged against the General Fund in year (MRP)	7,740	
-		-		• Amendment to Accounting Estimates and reduction of MRP	(2,017)	
	77,881		29,477			21,218
	-		-	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-
	-		-	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		-
	127,902		46,635	**Balance at 31 March**		22,215

<u>Financial Instruments Adjustment Account</u>

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage premiums paid on the early redemption of debt. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred. The authority then uses a statutory override to reverse this entry through the Movement in Reserves Statement. The cost of the transaction is then posted back to the General Fund

Balance over the life of the replacement borrowing taken. This spreads the burden on council tax.

2008/2009 £'000	2009/2010 £'000		2010/2011 £'000
(5,069)	(4,838)	**Debt - Balance as at 1 April**	(5,464)
-	(221)	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-
-	(636)	Transfer of overhanging premiums – now repaid	-
231	232	Proportion of premiums incurred in the previous financial years to be charged against the General Fund Balance in accordance with Statutory requirements	250
(4,838)	(5,463)		(5,213)
-	(1,245)	**Investments - Balance as at 1 April**	(377)
(2,245)	-	Recognition of Impaired Investment	-
1,000	-	Deferral of Impairment through use of General Fund balance	-
-	868	Adjustments to Impairments	354
-	-	Writing out of impairment balance to General Fund Balance	23
(1,245)	(377)		-
(6,083)	(5,840)	**Balance on FIAA**	(5,213)

The council is currently holding £5.213m of premiums in the FIAA. These are being written back to the General fund over the life of the replacement borrowing taken.

Impaired investments relating to Iceland have now been fully written off from the FIAA against general fund balances. See note on Impairment of Investments.

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which if is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2008/2009 £'000	2009/2010 £'000		2010/2011 £'000
(87,004)	(92,034)	**Balance at 1 April**	(163,605)
(1,776)	(67,726)	Actuarial gains/(losses) on pensions assets and liabilities	50,484
(15,203)	(17,857)	Reversal of items relating to retirement benefits debited/ credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	23,416
11,949	14,012	Employer's pensions contributions and direct payments to pensioners	14,630
(92,034)	(163,605)	**Balance at 31 March**	(75,075)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2008/2009	2009/2010		2010/2011
£'000	£'000		£'000
0	130	**Balance at 1 April**	(32)
130	(162)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	64
130	(32)	**Balance at 31 March**	32

Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the differences between the rate at which the Council provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

2008/2009	2009/2010		2010/2011
£'000	£'000		£'000
(1,240)	(661)	**Balance at 1 April**	(2,569)
(241)	(1,908)	Increase in provision for back pay in relation to Equal pay cases	-
-	-	Cash settlements paid in the year	-
820	-	Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-
(661)	(2,569)	**Balance at 31 March**	(2,569)

Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2008/2009	2009/2010		2010/2011
£'000	£'000		£'000
-	(3,443)	**Balance at 1 April**	(3,629)
-	3,443	Settlement or cancellation of accrual made at the end of the preceding year	3,629
(3,443)	(3,629)	Amounts accrued at the end of the current year	(4,086)
-	-	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-
(3,443)	(3,629)	**Balance at 31 March**	(4,086)

NOTE 32 – CASH FLOW STATEMENT – OPERATING ACTIVITIES

This note shows the cash inflow from operating activities. This adjusts the surplus/deficit on provision of services for non-cash items, and removes other items relating to financing or investing activities. This leaves the cash movement arising from taxation, grant income and payments from service users.

2009/2010		2010/2011
£'000		£'000
(96,811)	**Surplus/(Deficit) on Provision of Services**	14,573
	Adjust net surplus/deficit on the provision of services for non cash movements	
13,705	Depreciation/Amortisation	13,992
42,471	Impairment	12,307
(232)	Material impairment losses on Investments debited to surplus/deficit on the provision of services in year	(377)
3,490	Increase/(Decrease) in Creditors	(6,287)
(4,003)	Increase/(Decrease) in Debtors	5,812
(7)	Increase/(Decrease) in Inventories	30
3,845	Pension Liability	(38,046)
2,435	Contribution to/(from) provisions	6,047
186	STACA – non-cash movement in CIES	461
49,193	Carrying amount of non-current assets sold	11,385
111,083		5,324
	Adjust for items included in the net surplus/deficit on the provision of services that are investing or financing activities	
(20,175)	Capital Grants Credited	(13,225)
(434)	Proceeds from Sale of Assets	(1,336)
(20,609)		(14,561)
(6,337)	**Net Cash flow from Operating Activities**	5,336

Memo Item – Operating Activities – Interest

Operating activities within the cash flow statement include the following cash flows relating to interest:

2009/2010		2010/2011
£'000		£'000
500	Interest Received	451
(15,866)	Interest Paid	(15,693)
(15,366)	**Total**	(15,242)

NOTE 33 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

The note below details cash flows arising from investing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery.

2009/2010		2010/2011
£'000		£'000
(23,660)	Purchase of Property, Plant and Equipment, investment property and intangible assets	(21,863)
25,487	Purchase/(Disposal) of short term investments	(11,884)
-	Long term loans	(414)
457	Capital Receipts	1,342
22,690	Capital Grants and other receipts	17,317
24,974	**Net cash flows from investing activities**	(15,502)

NOTE 34 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

The note below details cash flows arising from financing activities. This shows the movement in cash flows that arise from the council's borrowing and other debt activities. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the council.

2009/2010		2010/2011
£'000		£'000
14,000	Cash receipts of short- and long-term borrowing	10,000
162	Collection Fund adjustment account	(65)
(18,950)	Repayment of short term/long term borrowing	(2,020)
(2,110)	Other payments relating to PFI and Finance Lease debt	(1,227)
(6,898)	**Net cash flows from financing activities**	6,688

NOTE 35 – ACQUIRED AND DISCONTINUED OPERATIONS

There has been no activity for the Council in terms of acquiring or discontinuing operations in the 2010/11 financial year.

NOTE 36 – TRADING OPERATIONS

Trading Accounts are maintained where services are provided on a basis other than a straightforward recharge of costs. The following trading accounts are operated by the Council.

2009/2010					2010/2011		
Income	Expenditure	(Surplus)/ Deficit			Income	Expenditure	(Surplus)/ Deficit
£'000	£'000	£'000			£'000	£'000	£'000
			Trading Account	**Description**			
(2,435)	2,637	202	Catering	Provision of meals in schools throughout the borough.	(3,334)	3,561	227
(583)	490	(93)	Trade Refuse Collection	Undertakes the collection of commercial waste from properties within the borough.	(542)	335	(207)
(93)	100	7	Industrial Estates	As part of the Council's priority theme to provide business space to attract and sustain business in the local economy, the Council provides units in a range of sizes throughout the borough.	(100)	255	155
(9)	7	(2)	Markets	Provision of a site for the operation of a market based in Redcar, to boost retail and tourism for the borough.	(6)	8	2
(279)	431	152	Business Centres	Provision of workshop and office accommodation in a range of sizes at Redcar Station & South Tees Business Centres, as part of the Council's priority theme to provide business space to attract and sustain business in the local economy.	(405)	658	253
(1,067)	937	(130)	Car Parking	Provision of both on street and off street parking throughout the borough.	(1,058)	1,657	599
(4,466)	4,602	136	Total		(5,445)	6,474	1,029

All of the income and expenditure relating to the Council's trading operations are incorporated within headings in the Cost of Services in the Comprehensive Income and Expenditure Statement.

NOTE 37 – AGENCY INCOME AND EXPENDITURE

Following the transfer of the former Learning Skills Council functions to the Council in April 2010, payments were made as an agent to local colleges totalling £6.520m (Nil in 2009/2010). These payments were reimbursed by Young People's Learning Agency (YPLA).

NOTE 38 – CONSTRUCTION CONTRACTS

The Council has not carried out any construction contracts on behalf of a third party and there is therefore no impact on the financial statements for 2010/2011.

NOTE 39 – SCHEMES UNDER THE TRANSPORT ACT 2000

The Council has not adopted a scheme of road user charging or workplace parking levies under the Transport Act 2000.

NOTE 40 – POOLED BUDGETS FOR HEALTH AND SOCIAL CARE

The Council contributes to the Tees Community Equipment Service, a partnership established by an agreement under Section 31 of the Health Act 1999 (now Section 75), to provide a single service, dissolving the historical distinction and boundaries between local authority and health services.

The partnership agreement covers the costs of administering the Tees Community Equipment Service including the procurement, storage, delivery, assembly or fitting, maintenance, collection, decontamination and recycling of community equipment provided to support vulnerable or disabled service users living in the community.

The aims of the partnership are to offer better access, more choice and improved responsiveness to service users and to provide greater local decision making about health and social care services by providing more integrated and appropriate services for older and disabled people across Teesside.

The agreement is made between eight partners – Middlesbrough Council, Redcar & Cleveland Council, Stockton Council, Hartlepool Council, Middlesbrough PCT, Redcar PCT, North Tees PCT and Hartlepool PCT.

The Council's contribution to the Tees Community Equipment Service partnership agreement is detailed below:

2007/2008	2008/2009	2009/2010		2010/2011
£'000	£'000	£'000		£'000
913	905	1,003	Gross Expenditure	1,004
(232)	(260)	(288)	Gross Income	(288)
681	645	715	Net Cost	716
			Contributions from Partners:	
133	139	139	Middlesbrough Council	146
142	154	157	Redcar & Cleveland Borough Council	157
108	131	148	Stockton Council	164
85	82	92	Hartlepool Council	82
47	45	42	Middlesbrough PCT	45
59	44	45	Redcar PCT	45
68	69	68	North Tees PCT	58
42	39	37	Hartlepool PCT	35
684	703	728	Total Contributions	732
(3)	(58)	(13)	Carry Forward	(13)
681	645	715	Net Cost	719

Funding of the Learning Disabilities Development Fund is, since 1 April 2008, via Area Based Grant, so it is no longer classed as a pooled budget arrangement under section 31 of the Health Act 1999.

NOTE 41 – CHILDREN’S FUND

There is a requirement of the Children’s Fund grant conditions/guidance, to identify Children’s Fund activity. Income and Expenditure for 2010/2011 was as shown below.

2009/2010			2010/2011	
£’000	£’000		£’000	£’000
		Income		
(452		Grant Income	(466	
(3)	(455	Miscellaneous Income	(10)	(476
		Expenditure		
-		Employees	-	
-		Premises	-	
-		Transport	-	
24		Supplies and Services	38	
431	455	Third Party Payments	438	476
	-			-

NOTE 42 – MEMBERS' ALLOWANCES

During the year, the Council had a total of 59 elected Members. The cost of remuneration including basic allowances, special responsibility allowance, dependents' carer's allowance, co-optees' allowance and travel and subsistence paid to Elected Members in 2010/2011 was £0.815m (2009/2010 £0.815m). This figure also includes employers Superannuation and National Insurance contributions. Under the Local Authorities (Members Allowances) (England) Regulations 2003 local authorities are required to publish details of payments made to its Members. This information is available on the Council's website at www.redcar-cleveland.gov.uk and is also published in The Evening Gazette.

NOTE 43 – OFFICERS' REMUNERATION

The number of employees (including teaching staff) whose gross remuneration, including benefits, expense allowances, redundancy and other severance payments, exceeded £0.050m is shown below in bands of £0.005m.

2009/2010			Remuneration Band (£)	2010/2011		
School Employees	Non School Employees	Total Employees		School Employees	Non School Employees	Total Employees
38	16	54	50,000 to 54,999	43	7	50
14	9	23	55,000 to 59,999	28	6	34
15	8	23	60,000 to 64,999	19	6	25
9	8	17	65,000 to 69,999	8	5	13
2	1	3	70,000 to 74,999	7	5	12
-	5	5	75,000 to 79,999	4	7	11
2	2	4	80,000 to 84,999	3	2	5
3	3	6	85,000 to 89,999	2	2	4
1	3	4	90,000 to 94,999	3	1	4
1	3	4	95,000 to 99,999	-	1	1
1	3	4	100,000 to 104,999	1	2	3
-	2	2	105,000 to 109,999	1	-	1
-	1	1	110,000 to 114,999	-	-	-
-	3	3	115,000 to 119,999	-	3	3
-	1	1	120,000 to 124,999	-	-	-
-	-	-	125,000 to 129,999	-	-	-
-	-	-	130,000 to 134,999	-	-	-
-	-	-	135,000 to 139,999	-	-	-
-	-	-	140,000 to 144,999	-	-	-
-	1	1	145,000 to 149,999	-	1	1
-	-	-	150,000 to 154,999	-	-	-
-	-	-	155,000 to 159,999	-	-	-
-	-	-	160,000 to 164,999	-	-	-
-	-	-	165,000 to 169,999	-	-	-
-	-	-	170,000 to 174,999	-	1	1
86	69	155	Total	119	49	168

Payments in respect of early retirement and voluntary redundancy as part of an organisational change process have been included where appropriate.

In terms of statutory requirements any senior member of staff with a gross salary in excess of £150,000 needs to be named. For 2009/2010 and 2010/2011 no one within the Council falls into this category.

Senior Officers included in the above table who are required to be separately identified are as follows:

Post Title	Salary (including Fees & Allowances) £	Recurring Payment £	One Off Payment £	Benefits in Kind £	Redundancy £	Total Remuneration Excluding Pension Contributions 2010/2011 £	Pension Contributions 2010/2011 £	Total Remuneration Including Pension Contributions 2010/2011 £
Assistant Chief Executive (Leaver 2010/2011)	80,873	-	-	471	92,955	174,299	7,756	182,055
Chief Executive	145,239	-	-	740	-	145,979	21,350	167,329
Director of Corporate Resources	116,729	537	-	788	-	118,054	17,238	135,292
Director of Regeneration Services	116,729	-	-	846	-	117,575	17,159	134,734
Director of Area Management	116,729	-	-	719	-	117,448	17,159	134,607
Head of Financial Services	100,144	539	-	784	-	101,467	14,800	116,267
Head of Human Resources (0.92 FTE)	92,024	-	-	824	-	92,848	13,528	106,376
Director of Adult & Children's Services (until Sept 2010)	50,258	-	34,923	282	-	85,463	7,388	92,851
Director of Adult & Children's Services (from Sept 2010)	67,702	-	-	724	-	68,426	9,952	78,378
	886,427	1,076	34,923	6,178	92,955	1,021,559	126,330	1,147,889

Comparative Information for 2009/2010

Post Title	Salary (including Fees & Allowances) £	Recurring Payment £	One Off Payment £	Benefits in Kind £	Redundancy £	Total Remuneration Excluding Pension Contributions 2010/2011 £	Pension Contributions 2010/2011 £	Total Remuneration Including Pension Contributions 2010/2011 £
Chief Executive	145,239	-	917	640	-	146,795	21,350	168,146
Director of Area Management	116,729	-	4,477	572	-	121,779	17,159	138,938
Director of Corporate Resources	116,729	537	467	726	-	118,459	17,238	135,697
Director of Adult & Children's Services	116,729	-	-	484	-	117,213	17,159	134,372
Director of Regeneration	116,729	-	-	795	-	117,524	17,159	134,683
Assistant Chief Executive	100,144	-	-	731	-	100,875	14,721	115,596
Head of Corporate Financial Services	98,753	443	-	692	-	99,888	14,582	114,470
Head of Human Resources (0.92 FTE)	92,024	-	2,154	744	-	94,922	13,528	108,450
	903,076	980	8,015	5,384	-	917,456	132,896	1,050,352

NOTE 44 – FEES PAYABLE TO AUDITORS

For 2010/2011 accounts the following fees relating to external audit and inspection were payable by the Council:

2009/2010 £		2010/2011 £
317,298	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed Auditor.	281,109
16,621	Fees payable to the Audit Commission in respect of statutory inspection.	14,440
23,614	Fees payable to the Audit Commission for the certification of grant claims.	34,952
357,533	Total	330,501

Further fees may be expected for 2010/2011 financial year work, although these have yet to be quantified.

NOTE 45 – DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010/2011 are as follows:

	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2010/2011	9,857	78,210	88,067
Brought Forward from 2009/2010	(339)	-	(339)
Carry forward to 2011/2012 agreed in advance	-	-	-
Agreed budgeted distribution in 2010/2011	9,518	78,210	87,728
Actual central expenditure	(9,611)	-	(9,611)
Actual ISB deployed to schools	-	(78,210)	(78,210)
Local authority contribution for 2010/2011	-	-	-
Carry forward to 2011/2012	(93)	-	(93)

NOTE 46 – RELATED PARTIES

In accordance with IAS 24 on Related Parties Disclosures, the financial statements should contain a disclosure necessary to draw attention to the possibility that the reported financial position of the Council may have been affected by the existence of related parties and by material transactions within them. In accordance with the requirement, set out in this note are those related parties.

Elected Members and Chief/Second-tier officers have provided details of any 'related party transactions', as required by the latest Code of Practice. There are no items declared that are material to the activities of the Council.

The Council's Head of Corporate Financial Services/Section 151 Officer is the Treasurer for the River Tees Port Health Authority and the Director of Corporate Resources/Monitoring Officer for the Council is also the Chief Legal Officer for the River Tees Port Health Authority.

There were no significant transactions with related companies.

Grants from Central Government, the European Community and other bodies are included in the column headed "Gross Income" shown in the Comprehensive Income and Expenditure Account on page 35 . A more detailed analysis of these grants is given in Note 29.

Some services are provided to bodies which seek to advance aims which the Council would support such as community development, economic regeneration and charitable purposes. Some of these services, such as payroll preparation and professional advice and support are provided without charge – but the total cost involved is not significant.

NOTE 47 – LEASES

Finance Leases

The Council has a number of leases that have been determined as Finance Leases under IFRS. These relate to the financing of a number of vehicle purchases as detailed below.

The assets acquired under these leases are held in the balance sheet under Property, Plant and Equipment (PPE).

31 March 2009	31 March 2010		31 March 2011
£'000	£'000		£'000
1,819	1,277	Vehicles, Plant, Furniture and Equipment	806

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the vehicles acquired by the Council and the finance costs that will be payable by the Council in future years while the liability is outstanding. The minimum lease payments are made up of the following amounts:

31 March 2009	31 March 2010		31 March 2011
£'000	£'000		£'000
		Finance lease liabilities (net present value of minimum lease payments):	
515	461	• Current	477
1,310	850	• Non Current	373
261	151	Finance costs payable in future years	73
2,086	1,462	Minimum lease payments	923

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments			Finance Lease Payments		
	31 March 2011	31 March 2010	31 March 2009	31 March 2011	31 March 2010	31 March 2009
	£'000	£'000	£'000	£'000	£'000	£'000
Not later than one year	528	539	624	477	461	515
Later than one year and not later than five years	395	923	1,462	373	850	1,310
Later than five years	-	-	-	-	-	-
	923	1,462	2,086	850	1,311	1,825

Operating Leases

The authority has a number of leases relating to vehicles that are classified as operating leases.

The future minimum lease payments under non-cancellable leases in future years are:

	31 March 2011
	£'000
Not later than one year	232
Later than one year and not later than five years	792
Later than five years	-
	1,024

The expenditure charged in year to Cultural, environmental, regulatory and planning services was as follows:

2009/2010		2010/2011
£'000		£'000
290	Minimum lease payments	317
40	Contingent rents	48
330		366

Contingent rents refer to one-off payments relating to the return of leased items.

NOTE 48 – PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

This note details the Council's commitments under its three PFI contracts.

Office Accommodation and Business Centre

In 2002 the council entered into a contract for the provision of:

- Office Accommodation in Redcar
- Office Accommodation in Guisborough
- Business Centre in South Bank

Seafield House in Redcar houses administrative support for Adults and Children's services. Belmont House in Guisborough houses mixed use administrative staff including IT services, Planning and Highways. The South Tees Business centre has a strong technology focus and offers 16 workshops and 39 offices along with in-house business advice and support.

For an annual payment, the contractor undertook to build the assets and provide a revenue and maintenance service over the next 25 years. The overall value of the contract over 25 years is £39m, excluding estimates of inflation.

Schools

The contract for provision of schools relates to two new primary and three new secondary schools.

The PFI arrangement provided brand new schools for the authority at a time when capital funding was limited. The schools were completed in 2006/2007 and the contract for the service provision runs for 30 years from this date. The overall value of the contract over 30 years is £214m, excluding estimates of inflation.

Street Lighting

In 2007 the council entered into an agreement for the replacement of 85% of its street lighting stock and 100% of its illuminated signs, to replace obsolete equipment. Over a 3 year core period the contractor will provide replacement capital (approximately 15,000 lighting columns). For the remainder of the contract (22 years) ongoing maintenance and life cycle replacements will be carried out. Energy costs are not included in the PFI contract.

The overall cost of the contract is £72m, excluding estimates of inflation.

Property Plant and Equipment (PPE)

The assets used to provide the service are recognised on the authority's balance sheet.

Offices and Schools are included under PPE as land and buildings, while Street Lighting is recognised as an infrastructure asset.

Offices are valued at market value due to their non-specialised nature. Schools are valued at depreciated replacement cost due to their specialist nature. Infrastructure assets are valued at depreciated historic cost.

The value of these assets is included in note 14 on fixed assets, but is briefly summarised below.

Value of Assets held under PFI Schemes

2008/2009	2009/2010		2010/2011
£'000	£'000		£'000
60,649	40,870	Opening Balance	36,135
(2,196)	(731)	Depreciation	(1,360)
5,946	5,946	Additions	4,488
(11,143)	-	Revaluations/Impairment	-
(12,386)	(9,950)	Disposal	-
40,870	36,135	Closing Balance	39,263
(1,595)	(766)	Short term borrowing	(1,348)
(60,379)	(65,559)	Long term borrowing	(70,687)

The disposal in 2008/2009 relates to the removal of Sacred Heart and St Benedict's schools from the balance sheet. These schools are voluntary aided, and therefore owned by the diocese. The liability for these assets remains, as the contract is between the provider and the Council.

Further information is provided in the note below.

The disposal in 2009/2010 relates to the removal of Bydales School from the accounts. Bydales School achieved Foundation status in 2009/2010. The asset is therefore removed from the accounts while the subsequent liability remains.

Payments

The Council make an agreed payment for each service in each year which is increased by inflation. Payments are for an agreed level of service, and can be amended if the contractor fails to meet availability and performance standards. Payments are either on behalf of capital (payment for the asset concerned) or for revenue (the day to day service provided). Payments remaining to be made over the life of the three PFI contracts are detailed below:

Payments due to be made under PFI contracts – outstanding as at 31 March 2011

	Repayment of leasing liability *	Payment of interest *	Provision of services	Total
	£'000	£'000	£'000	£'000
Within 1 year	1,348	6,698	3,807	11,853
Within 2 - 5 years	6,510	25,479	15,373	47,362
Within 6 - 10 years	10,738	28,118	20,346	59,203
Within 11 -15 years	14,570	22,715	21,918	59,203
Within 16 - 20 years	18,219	15,349	19,747	53,314
Within 20 -25 years	20,650	5,562	13,489	39,701
	72,034	103,921	94,680	270,636

Values given are based upon current prices with no assumed inflation in future years.

In accounting for PFI assets, the Council must disclose the liability to pay the contractor for the provision of the PFI services. The figures below represent the amount outstanding to the contractor for the asset as at 31st March 2011, for the remainder of the PFI contract.

Value of liabilities held under PFI schemes

2008/2009	2009/2010		2010/2011
£'000	£'000		£'000
(60,649)	(61,974)	Opening Balance	(66,325)
4,620	1,595	Repayments	766
-	-	Adjustment	(2,017)
(5,946)	(5,946)	Additions	(4,459)
(61,974)	(66,325)	Closing Balance	(72,035)

The adjustment relates to a change in accounting estimates for the model on street lighting, detailed in the note below.

NOTE 49 – PRIOR PERIOD ADJUSTMENT – SCHOOLS PFI

On review of the assets held by the Council under PFI contracts during 2010/11, it was found that two of the Schools held as assets were Voluntary Aided (VA) Schools.

VA schools buildings are treated as if they are owned by the diocese. The land remains an asset of the Council.

Under IFRIC 12 for PFI contracts, it was assumed that as the contract was between the contractor and the Council, the Council held the asset and liability on the balance sheet.

Following review from the Audit Commission, it was determined that the asset was instead owned by the diocese, as with other VA schools.

As these schools should never have appeared as an asset on the balance sheet, all entries have been removed. The Council has therefore derecognised the schools from the accounts as follows:

	£'000
Sacred Heart - PPE	(9,476)
St Benedict's -PPE	(2,910)
Total removed as at 1 April 2009	(12,386)

As the contract for the provision of schools is between the council and the contractor, the liability and subsequent payments remain within the Council's accounts.

NOTE 50 – ACCOUNTING ESTIMATION CHANGE – STREET LIGHTING PFI

On review of assets held under PFI contracts, it was found that unitary payments made for street lighting at the start of the contract (2007/2008) were lower than the model previously assumed.

The amounts paid for revenue service provision were assumed to remain the same as per the contractor's model. However, this meant that the amounts repaid against the capital liability were significantly reduced.

This change in accounting estimate relating to finance liability repaid, resulted in the following amendments in the 2010/2011 accounts:

	£'000
Increase Finance Lease Liability	(2,017)
Reduce MRP through CAA	2,017
Charge additional revenue costs to Cultural, Environmental, Regulatory and Planning Services	2,017
Reverse through movement in reserves	(2,017)
	-

NOTE 51 – CAPITALISATION OF BORROWING COSTS

The Council does not capitalise borrowing costs. They are expensed to the Comprehensive Income and Expenditure Statement in the year that they are incurred.

NOTE 52 – TERMINATION BENEFITS

The Council terminated the contracts of a number of employees in 2010/2011, incurring liabilities of £4.846m (£3.145m 2009/2010). Of this total £4.576m was payable to 256 officers, who elected to take voluntary redundancy/early retirement as part of the Council's overall restructuring programme. The restructuring programme includes £0.121m payable to the Assistant Chief Executive and £35k payable to the Director of Adults & Children's Services in the form of compensation for loss of office and redundancy, as disclosed in Note 43. The remaining £0.270m is payable to 2 officers within schools, who elected to take redundancy/early retirement. The table below shows the split by directorate of the overall restructuring programme.

	£'000	Number of employees
Chief Executive	89	2
Corporate Resources	614	21
Area Management	701	47
Adults & Children's Services	2,874	173
Regeneration	298	13
	4,576	256

NOTE 53 – PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of the Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/2011, the Council paid £6.625m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.10% of pensionable pay. The figures for 2009/2010 were £6.676m and 14.10%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 54.

NOTE 54 – DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the costs of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The council participates in the following post employment scheme:

- The Local Government Pension Scheme, administered locally by Middlesbrough Borough Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2009/2010 *			2010/2011 *	
£'000	£'000	Comprehensive Income and Expenditure Statement	£'000	£'000
		Cost of Services:		
9,023		• Current service cost	15,739	
-		• Past service costs	(43,365)	
1,697	10,720	• Settlements and Curtailments	1,068	(26,558)
		Financing and Investment Income and Expenditure:		
23,837		• Interest cost	27,892	
(16,700)	7,137	• Expected return on scheme assets	(24,750)	3,142
	17,857	Total Post Employment Benefit Charged to the Surplus/Deficit on the Provision of Services		(23,416)
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
	67,726	• Actuarial gains and losses		(50,484)
	67,726	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		(50,484)
		Movement in Reserves Statement:-		
	(3,845)	• Reversal of net charges made to the Surplus/Deficit for the Provision of Services for post employment benefits in accordance with the Code		38,046
		Actual amount charged against General Fund Balance for pensions in the year:		
	14,012	• Employers' contributions payable to scheme		14,630

* Actuary's data based upon actual contributions up to 31 December and then market returns (estimated where necessary) for the period to 31 March.

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2010/2011 is a loss of £60.391m.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

Year to 31 March 2010 £'000		Year to 31 March 2011 £'000
358,489	**Opening balance at 1 April**	531,157
9,023	Current Service Cost	15,739
23,837	Interest Cost	27,892
4,231	Contributions by scheme participants	4,068
152,664	Actuarial gains/(losses)	(46,596)
(17,114)	Benefits paid	(19,712)
(1,670)	Unfunded pension payments	(1,557)
-	Past Service Cost	(43,365)
1,697	Curtailments and settlements	1,068
531,157	**Closing balance at 31 March**	468,694

Reconciliation of fair value of the scheme (plan) assets:

Year to 31 March 2010 £'000		Year to 31 March 2011 £'000
266,455	**Opening balance at 1 April**	367,552
16,700	Expected Rate of Return	24,750
84,938	Actuarial gains/(losses)	3,888
14,012	Employer Contributions	14,630
4,231	Contributions by scheme participants	4,068
(18,784)	Benefits paid	(21,269)
367,552	**Closing balance at 31 March**	393,619

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £30.895m (2009/2010 £101.637m).

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing the Council's liabilities in the Local Government Pension Scheme by £43.365m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

Scheme History

	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
	£'000	£'000	£'000	£'000	£'000
Present Value of Funded Scheme Liabilities	(447,728)	(509,010)	(331,620)	(371,468)	(410,232)
Present Value of Unfunded Scheme Liabilities	(20,966)	(22,147)	(26,869)	(27,827)	(28,761)
FAIR VALUE OF SCHEME ASSETS	393,619	367,552	266,455	312,291	325,587
Surplus/(Deficit) in the scheme	(75,075)	(163,605)	(92,034)	(87,004)	(113,406)

The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total liability of £75.075m has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a negative overall balance of £27.108m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

- The deficit on the scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £10.508m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The scheme has been assessed by Barnett Waddingham LLP, an independent firm of actuaries, estimates for fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

2009/2010		2010/2011
	Long term expected rate of return on assets in the scheme:	
7.3%	Equities	7.2%
4.5%	Gilts	4.4%
5.5%	Other Bonds	5.5%
5.5%	Property	5.4%
3.0%	Cash	3.0%
	Mortality assumptions (years):	
	Longevity at 65 for current pensioners:	
19.5	Men	18.9
22.5	Women	23
	Longevity at 65 for future pensioners:	
20.4	Men	20.9
23.4	Women	24.9
3.9%	Rate of Inflation	2.7%
5.4%	Rate of increase in salaries	5.0%
3.9%	Rate of increase in pensions	2.7%
5.5%	Rate for discounting scheme liabilities	5.5%
50%	Take-up of option to convert annual pension into retirement lump sum	50%

* The rate of inflation in 2010/2011 relates to the Consumer Price Index and in 2009/2010 to the Retail Price Index.

The scheme's assets consist of the following categories, by proportion of the total assets held:

Year to 31 March 2010		Year to 31 March 2011
%	**Assets**	%
83	Equities	84
7	Gilts	6
1	Other Bonds	2
4	Property	4
5	Cash	4
100	TOTAL	100

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/2011 can by analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
	%	%	**%**	**%**	**%**
Difference between the expected and actual return on assets	1	23.1	(26.7)	(11.4)	0.4
Experience gains/(losses) on liabilities	(1.9)	1.9	-	0.4	-

NOTE 55 – CONTINGENT LIABILITIES

The Teachers' Pension Scheme is a defined benefit scheme, administered by the Teachers' Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs). However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

* * *

Liberata continue to have admitted body status to the Teesside Local Government Pension Scheme and have a £0.100m Pension Bond in place until contract termination (in 2013). The bond value is recalculated on an annual basis to ensure its adequacy and Liberata are to adjust the bond accordingly. The Council is party to this arrangement with its liability being limited to that required by the Pension Fund Resolution i.e. any residual deficit on the fund in the event of premature termination of the contract after application of the pension bond will fall to the Council.

* * *

A number of local authorities are currently involved in a test case concerning a claim for refund of personal search fees paid to local authorities for local land charges searches. Redcar and Cleveland Borough Council is not a defendant to those proceedings but does contribute to a fighting fund set up by the Local Government Association to defend these claims and will face similar claims for repayment should the judgement go against the local authorities in the current test case. The outcome of the litigation is uncertain but court proceedings have been commenced and a decision could be made any time over the next 6 to 18 months.

If the courts rule against the local authorities the Council could have to repay personal search fees paid for personal search fees for a period of up to six years prior to the judgement together with large interest payments on the sums paid. Significant income has been received from local land charges during periods when the property market was more buoyant (in the region of £200,000 per annum). Not all of the monies received were for personal searches but even a proportion of the income repaid could amount to a significant liability (up to £500,000).

NOTE 56 – CONTINGENT ASSETS

There are no contingent assets pertaining to the Council at 31 March 2011.

COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT – 2010/2011

2009/2010			2010/2011	
£'000	£'000		£'000	£'000
		INCOME		
(51,986)		Income from Council Tax Payers	(53,216)	
		Transfer from General Fund		
(14,134)		- Council Tax Benefits	(14,985)	
1		- Transitional Relief	-	
(36,148)		Income collectable from Business Rates Payers	(41,033)	
	(102,267)			(109,234)
		EXPENDITURE		
		Precepts & Demands:		
7,936		Cleveland Police	8,193	
2,678		Cleveland Fire	2,790	
55,328		Redcar & Cleveland BC	56,861	
	65,942			67,844
		Business Rates		
35,980		Payments to national pool	40,863	
167		Cost of Collection	170	
	36,147			41,033
		Bad and Doubtful Debts		
		Increase/(Decrease) in provision for Bad Debts		
448		- Council Tax	501	
		Bad Debts (Written Off)/Written On		
(540)		- Council Tax	(265)	
	(92)			236
		Contributions		
	463	Towards previous years estimated Collection Fund surplus		44
	193	Net Collection Fund (Surplus)/Deficit		(77)
	(155)	Brought Forward Balance at 1 April		38
	38	Carried Forward Balance at 31 March		(39)

NOTES TO THE COLLECTION FUND - 2010/2011

NOTE 1 – COUNCIL TAX LEVELS AND TAX BASE

Council Tax income comes from a charge made on residential properties. The income is used to support the Council's General Fund revenue expenditure, as detailed in the Income and Expenditure Account. It is also used to finance the Council's share of the Police and Fire Authorities expenditure, through precepts made on the Council's Collection Fund.

The level of Council Tax in any year is determined by estimating the income required by the Council and the Police and Fire Authorities and by dividing this by the Council Tax base, which comprises residential properties banded by value and charged accordingly.

To allow for comparison between years and authorities the tax base is expressed as the number of Band D properties in the borough, which is calculated by multiplying the number of properties in a band by an appropriate weighting, ranging from 6/9 to 2.

Set out in the table are the Band D weighting, property numbers and income from each band level, as per the Council Tax Base, which was set by the Council on 5 January 2010.

Band	Property Value	Weighting to Band D	Number of chargeable dwellings	Band D Equivalent	Redcar & Cleveland Demand Excluding Parishes	Police Authority Demand Per Property	Fire Authority Demand Per Property	Total Demand Per Property	Total Income Per Band
			No.	No.	£	£	£	£	£'000
A		5/9	73.75	40.97	861.12	125.23	42.65	1029.00	76
A	Up to £40,000	6/9	22,649.20	15,099.47	861.12	125.23	42.65	1029.00	23,306
B	£40,001 - £52,000	7/9	10,845.70	8,435.54	1004.64	146.10	49.75	1,200.49	13,020
C	£52,001 - £68,000	8/9	12,334.75	10,964.22	1,148.16	166.97	56.86	1,371.99	16,923
D	£68,001 - £88,000	9/9	4,658.95	4,658.95	1,291.68	187.84	63.97	1,543.49	7,191
E	£88,001 - £120,000	11/9	2,739.40	3,348.16	1,578.72	229.58	78.19	1,886.49	5,168
F	£120,001 - £160,000	13/9	785.40	1,134.47	1,865.76	271.32	92.40	2,229.48	1,751
G	£160,001 - £320,000	15/9	348.00	580.00	2,152.80	313.06	106.62	2,572.48	895
H	Over £320,000	18/9	8.65	17.30	2,583.36	375.68	127.94	3,086.98	27
			54,443.80	44279.08					68,357
Less non collection 1.5%				664.19					
Council Tax Base				43,614.89					

The Band D Equivalent council tax base in 2009/2010 was 43,492.60.

NOTE 2 – COUNCIL TAX INCOME

The calculation of the council tax base takes into account an assumed number of exempt dwellings, disabled reductions and discounts. However, the opening liability shown in the table below does not take account of these assumptions. All exemptions, disabled reductions and discounts during the year are shown within the table to show the actual income collectable from council tax payers.

The income is determined from the following sources:

2009/2010 £'000		2010/2011 £'000
75,779	Opening Liability	77,903
(11)	Adjustment to Opening Liability	(118)
(102)	Disabled Reduction	(105)
(6,806)	Discount	(7,030)
(2,200)	Exemptions	(2,184)
(541)	Write Off	(265)
66,119	Income collectable from Council Tax Payers	68,201

NOTE 3 – NATIONAL NON DOMESTIC RATE MULTIPLIER

National Non Domestic Rates (NNDR) is organised on a national basis. The Government specifies an amount, termed the Uniform Business Rate which is shown in the table below and subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the business ratepayers in the borough and pays the proceeds into an NNDR pool administered by the Government.

2009/2010 Pence		2010/2011 Pence
48.1	NNDR multiplier	40.7

NOTE 4 – NATIONAL NON DOMESTIC RATEABLE VALUE

The total non-domestic rateable value at the year end is shown in the following table:

2009/2010 £'000		2010/2011 £'000
93,267	Total NNDR rateable value	114,272

NOTE 5 – INCOME FROM NON DOMESTIC RATES

The NNDR income collectable from Ratepayers and the amount payable to the NNDR Pool is shown in the following table:

2009/2010			2010/2011	
£'000	£'000		£'000	£'000
		Estimated Income		
93,267		Gross Rateable Value	114,272	
48.1p		Multiplier (pence in the £)	40.7p	
	44,861	**Estimated Opening Debit**		46,509
		Actual Income		
45,252		Actual Opening Debit	53,082	
(7,756)		Additional Adjustments	123	
	37,496			53,205
(3,024)		Reduced Assessments	(2,675)	
4,543		Transitional Relief	(4,397)	
(1,582)		Mandatory Relief	(1,747)	
(935)		Discretionary Relief	(3,204)	
-		Section 49	-	
(102)		Interest Due	(28)	
(248)		(Increase)/Decrease in Provision for Bad Debts	(121)	
-	(1,348)	Deferred Recovery	-	(12,172)
	36,148	Actual Income Collectable		41,033

NOTE 6 – MAJOR PRECEPTS AND COLLECTION FUND SURPLUS/DEFICIT

Details of the major precepts on the Collection Fund are shown in the following table:

2009/2010		2010/2011
£'000		£'000
7,936	Cleveland Police	8,193
2,677	Cleveland Fire	2,790
55,328	Redcar & Cleveland BC	56,861
65,941		67,844

The share of the Collection Fund surplus or deficit is as follows.

2009/2010		2010/2011
£'000		£'000
4	Cleveland Police	(5)
2	Cleveland Fire	(2)
32	Redcar & Cleveland BC	(32)
38	Total (Surplus)/Deficit	(39)

These amounts are not held within the Council's revenue balances but the individual authority shares are now part of the Collection Fund Adjustment Account.

NOTE 7 – COLLECTION FUND GLOSSARY OF TERMS

A number of technical terms are used in compiling the Collection Fund and supporting notes. These are explained below:

Disabled Reduction – Reduction in charge by one council tax band due to a resident meeting certain criteria due to their disability.

Discount – 10% locally prescribed reduction in charge for property empty more than six months. 25% reduction for single person occupancy as prescribed by the Local Government Finance Act 1992. Certain classes of person e.g. armed forces are not counted as prescribed by the Local Government Finance Act 1992 - 50% reduction in these cases.

Exemptions – Certain classes of property are exempt as laid down in the Local Government Finance Act 1992, i.e. properties empty less than six months, properties undergoing structural alteration (maximum one year), solely occupied by students etc.

Reduced Assessments – Reductions in liability due to changes in rateable value as directed by the valuation office.

Transitional Relief – Mandatory government scheme to phase in the effects to liability over a number of years caused by the issue of a new valuation list.

Mandatory Relief – Relief where the ratepayer has a mandatory entitlement. Under the Local Government Finance Act 1988, offset is in full against the Council's contribution to the pool.

Discretionary Relief – Relief where the Council has discretionary power to grant under the Local Government Finance Act 1988. The cost to the Council is generally 25% of the relief granted unless it is used to top up mandatory charity relief where the cost to the Council is 75%.

Section 49 – Hardship relief. Relief granted to businesses on the grounds of hardship. Discretionary power of the Council with 25% costs.

Interest Due – Interest payable on overpayments due to reduced assessments. Interest rate notified to the Council annually (1% below bank rate in September the previous year). Due to the interest rate falling to 0.5% the Council has been notified that the interest rate for 2010/2011 will be 0%.

Summons Costs – Costs raised at a time a summons is issued for unpaid rates, to cover administration costs.

GROUP ACCOUNTS

Introduction

1. The Code of Practice on Local Authority Accounting recognises the wide diversity of service delivery vehicles used nationally by Local Authorities. These requirements are based on the provisions of IAS 27 “Consolidated and Separate Financial Statements”, IAS 28 “Investments in Associates” and IAS 31 “Interests in Joint Ventures”.

2. It has been a requirement of all local authorities to ascertain whether they needed to produce comprehensive group accounts since 2004/2005. These authorities would identify interests in entities meeting the definition of subsidiaries, associates and joint ventures.

Group Accounts Requirements

3. The Council has to determine whether it has interests in any subsidiaries, associates or joint ventures using the definitions and guidance within the Code of Practice 2010/2011 and the CIPFA “Group Accounts in Local Authorities Practitioners Workbook”.

4. The Council has undertaken significant research to identify and document it’s relationships with all partners, companies, joint ventures and voluntary organisations. Consideration of issues such as the type of interest, ownership of share capital, membership of appropriate committees, the degree of operational and financial control, access to benefits and exposure to risks have been key elements in this analysis.

5. In the majority of cases the arrangements for accounting relationships with these organisations are fully covered within the Council’s Comprehensive Income and Expenditure Statement. Similarly any assets and liabilities generated are accounted for within the Council’s Balance Sheet. As a result there is no ‘group relationship’ for most of these arrangements. In previous years the Council had concluded it had a group relationship with two bodies:

   - Computer Aided Design, Computer Aided Manufacture (CADCAM)
   - Tees Valley Joint Strategy Unit

Redcar & Cleveland Borough Council’s Position re Group Accounts 2010/2011

6. In considering whether to produce Group Accounts the Council has had due regard for materiality. The fact that an organisation is a subsidiary, associate, or joint venture to the local authority does not automatically dictate that Group Financial Statements need to be produced. The Council has given due consideration to the financial scale of such entities, in both individual and consolidated terms.

7. In the case of Redcar & Cleveland Borough Council two companies had fallen within the scope of Group Accounts and can be viewed accordingly: -

   Computer Aided Design, Computer Aided Manufacture (CADCAM). A joint venture which was established to provide IT training and technology services. The company is jointly controlled by the four Tees Valley Authorities (Stockton, Hartlepool, Middlesbrough and Redcar and Cleveland) and ceased trading on 1 April 2004. The company had been dormant for a number of financial years but had incurred some residual costs. The company was formally wound up in October 2010 and as such does not now exist.

Tees Valley Joint Strategy Unit. The Tees Valley Joint Strategy Unit was established in 1996 but up until 2006/2007 it had been incorporated into Stockton Borough Council's year end accounts. The Audit Commission had at that point determined that it should be accounted for separately as a joint venture under the guidance and legislation appertaining to Group Accounts.

The JSU operated very closely with Tees Valley Regeneration, a partnership fully managed by Stockton Borough Council. From 1 April 2010 the JSU and TVR amalgamated to become Tees Valley Unlimited. Although the Council still continue to contribute to both former bodies the TVU entity is again fully managed by Stockton.

All TVR and JSU staff TUPE transferred over to TVU on commencement. Although the TVU Board continues to be multi-Authority for consultation and development work, all operational and management decisions, as well as financing are taken by Stockton in its lead body role.

As such the Council would classify TVU and the previous JSU group relationship as that if a simple investment rather than a joint venture.

8. The Council's analysis has therefore shown that non of the previous bodies are within it's group boundary and no new group relationships have been identified. As a result the preparation of group financial statements is not necessary.

Other Related Companies

The Council has a number of shareholdings in various companies and/or the ability to appoint one or more Directors. In all cases, except for those of Durham Tees Valley Airport Ltd and SITA Tees Valley Limited, the extent of control, or the size of operations, is not significant.

Interests in companies fall into one of six categories:

A) Controlled Companies
B) Arm's Length Controlled Companies
C) Regulated Companies
D) Unregulated Companies
E) Minority interest Companies
These go from full/majority control through lessening degrees of influence.
F) Exempt from regulations

Companies in which the Council had interests during 2010/2011 are listed below:

1. Tees Valley Unlimited Category E. This company was formed by the five Tees Valley Local Authorities and ONE North East. Purpose – urban regeneration.

2. District Surveyors Association Ltd (5531889). Category E. This company is limited by guarantee. Its principal activities are concerned with effective promotion and marketing of local authority building control, providing a strong central supporting and coordinating role.

3. Durham Tees Valley Airport Ltd (2020423). Category F. Operates Durham Tees Valley Airport.

4. SITA Tees Valley Limited (02669578) Category E. Waste Disposal in Cleveland area.

5. North East Museums, Libraries and Archives Council (NEMLAC) (4159174). Category E. This company is limited by guarantee and covers the whole of the North East and is

owned by the County Councils, Tyne and Wear Metropolitan Unitary Councils, Tees Valley Unitary Councils and other Public Bodies in the Region.

8. Northern Grid for Learning (04824016) Category E. This company is limited by guarantee. It was set up to work with 7 Local Authorities in the North East, delivering broadband and ICT services to learning and public services.

The classification of the various companies is given as per the available information currently held by the Tees Valley Unitary Authorities.

The only holding believed to be of any great value is that in Durham Tees Valley Airport where less than 4% is held, worth £0.347m. This is excluded from the 'Code of Practice' provisions by virtue of Part II of the 1986 Airports Act.

The Council is also a party to the Beamish North of England Open Air Museum, but as it does not contribute to the company's operations has no rights of ownership or control.

DURHAM TEES VALLEY AIRPORT LIMITED

The Airport was previously known as Teesside International Airport and changed its name on 20 September 2004.

Redcar and Cleveland own 3.89% of the issued share capital. The latest published accounts are for the financial year to 31 March 2010. Issues of note include a loss on the Profit and Loss Account of £6.465m (previous year loss of £2.653m) and a Net Asset position of £8.941m (previous year £16.475m). Further information and copies of their accounts are available from the Registered Office, Durham Tees Valley Airport Limited, Liverpool John Lennon Airport, Liverpool, L24 1YD.

SITA TEES VALLEY LTD

The Company was previously known as Cleveland Waste Management Limited and changed its name on 13 November 2002.

Redcar and Cleveland own 26.2% of the Preference Shares (capital) that were originally owned by the County of Cleveland (£0.313m of £1.193m). Cleveland County owned 20% of the overall share capital of £5.965m. The latest published accounts are for the financial year to 31 December 2009. Issues of note include a loss on the Profit and Loss Account of £2.353m (previous year profit of £3.696m) and a Net Asset position of £34.372m, (previous year £36.725m).

Control of the Company is exercised by the "external" shareholders who own all of the Ordinary Shares and who are entitled to all of the retained earnings.

The Company has advised that Accounts for the year ended 31 December 2010 can only be expected at or after the end of October following the year-end so the Council can only report on Accounts over a year old.

Copies of Accounts for SITA may be obtained via their Company Secretary/ Registered Office SITA House, Grenfell Road, Maidenhead, Berkshire SL6 1ES.

AUDITOR'S REPORT TO REDCAR AND CLEVELAND BOROUGH COUNCIL

Will accompany the formal audit opinion on the Statement of Accounts at the end of September 2011

GLOSSARY OF TERMS

ACCOUNTING PERIOD

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April and ending as at the balance sheet date of 31 March.

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through

(i) recognising
(ii) selecting measurement bases for, and
(iii) presenting

assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the income and expenditure account or balance sheet it is to be presented.

ACCRUAL

A sum included in the final accounts attributable to that accounting period but for which payment has yet to be made or income received. Accruals are made for revenue and capital expenditure and income.

ACTUARIAL GAINS & LOSSES

For a defined benefit pension scheme the changes in actuarial deficits or surpluses that arise because:

(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or

(b) the actuarial assumptions have changed.

AMORTISED COST

A measure of the real cost that the Council bears by entering into a financial liability. This is not necessarily based on the contractual term but on the effective rate of interest within the contract.

AGENCY

The provision of services by one body (the Agent) on behalf of, and generally reimbursed by, the responsible body.

ASSET

An item having value in monetary terms. Assets are defined as current or fixed.

- a current asset will be consumed or cease to have value within the next financial year e.g. stock and debtors.
- a non-current asset provides benefits to the Council and to the services it provides for a period of more than one year.
- an asset held for sale is an asset that is currently in the process of being sold. They must be actively marketed, with the sale expected within 12 months.

AUDIT

An independent examination of the Council's activities, either by Internal Audit or the Council's External Auditor, which is the Audit Commission.

BALANCE SHEET

A Statement of the recorded assets, liabilities and other balances at a specified date usually at the end of an accounting period.

BALANCES

The capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the general fund or any other fund.

BEST VALUE ACCOUNTING CODE OF PRACTICE

A Chartered Institute of Public Finance and Accountancy (CIPFA) guide to accounting for local government services which provides a consistent and comparable calculation of the total costs of services.

BUDGET

The forecast of revenue and capital expenditure over the accounting period.

CAPITAL CHARGES

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a non-current asset or expenditure which increases the benefit in service to the Council and not merely maintains the non-current asset.

CAPITAL FINANCING

The raising of money to pay for capital expenditure. This includes borrowing, leasing, direct revenue financing (DRF), usable capital receipts, capital grants, capital contributions and revenue reserves.

CAPITAL FINANCING REQUIREMENT (CFR)

A calculation to show the Council's underlying need to borrow to fund capital resources.

CAPITAL GRANT

Grant used to finance specific schemes in the capital programme. Where capital grants are receivable, and all conditions are met and expenditure incurred, they are released to the Comprehensive Income & Expenditure Statement. Where conditions to the funder exist, or the Council may be required to repay the grant, it is held as a creditor. Where there are no conditions but the funding is not spent, it is carried forward as a usable reserve.

CAPITAL PROGRAMME

The capital schemes the Council intends to carry out over a specific time period.

CAPITAL RECEIPT

The proceeds from the disposal of land or other assets, part of which must be set aside to repay debt. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government, but they cannot be used for revenue purposes.

CASH AND CASH EQUIVALENTS

Cash held by the Council, along with short term investments held for periods of less then 90 days.

CASH FLOW STATEMENT

A statement summarising the inflows and outflows of cash arising from transactions between the Council and third parties for revenue and capital purposes.

CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code sets out the accounting concepts and accounting principles which underpin the statement of accounts.

COLLECTION FUND

A fund administered by the Council, which records all the income received in relation to local taxation and non-domestic rates. It also shows how the income has been distributed to the preceptors and the general fund.

COMMUNITY ASSETS

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples are parks and historic buildings.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement brings together the income and expenditure relating to all of the Council's functions and also identifies how this is financed from local taxation and government grants.

CONSISTENCY

The principle that the accounting treatment of like items within an accounting period and from one period to another are the same.

CONTINGENCY

The sum of money set a-side to meet unforeseen expenditure or liability.

CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITY

A contingent liability is either:

(a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or

(b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

COST OF CARRY

This is the difference between the interest received from investments against the interest paid for borrowing.

COUNCIL TAX

The form of local taxation in use since April 1993, based on property values.

CREDITORS

Amounts owed by the Council for work done, goods received or services rendered within the accounting period but for which payment was not made at the balance sheet date.

CURRENT ASSETS

Assets which can be expected to be consumed or realised during the next accounting period, e.g. debtors and stocks.

CURRENT LIABILITIES

Amounts which will become payable or could be called in within the next accounting period e.g. creditors, cash overdrawn.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

(a) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and

(b) termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEBT OUTSTANDING

Amounts borrowed to finance capital expenditure which are still to be repaid.

DEBTORS

Amounts due to the Council for works done, goods received or services rendered before the end of the accounting period, but for which payments have not been received by the end of that accounting period.

DEFERRED CAPITAL RECEIPTS

Amounts due to the Council from the sale of fixed assets which are not receivable immediately on sale. The amounts will usually be received in instalments over an agreed period of time.

DEFERRED LIABILITIES

Liabilities which, by arrangement, are payable beyond the next year, at some point in the future or paid off by an annual sum over a period of time.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEFINED CONTRIBUTION SCHEME

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DEDICATED SCHOOLS GRANT (DSG)

A ring fenced central government grant paid direct to the education service as fundamental support for its revenue expenditure.

DE MINIMIS

A de minimis level is adopted to only reflect material transactions in the capital accounts. The Council's policy on de minimis levels are outlined in the statement of accounting policies.

DEPRECIATION

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passing of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

DERECOGNISED

The process of removing a financial asset or financial liability from the balance sheet once performance under the contract is complete or the contract is terminated.

DIRECT REVENUE FINANCING

Resources provided from the Council's revenue budget to finance the cost of capital projects.

DISCRETIONARY BENEFITS

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

EARMARKED RESERVES

These reserves represent monies set aside that can only be used for a specific purpose.

EFFECTIVE RATE OF INTEREST

The rate of interest that will discount all the cash flows that take place throughout the expected life of a financial instrument down to the fair value of the asset calculated at initial measurement.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that fall within the ordinary activities of the Council but which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

EXPECTED RATE OF RETURN ON PENSION ASSETS

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

EXTRAORDINARY ITEMS

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCIAL INSTRUMENT

Any contract that gives rise to a financial asset of one entity and a financial liability of another.

FINANCIAL REPORTING STANDARD (FRS)

These standards are developed by the International Accounting Standards Board and regulate the preparation and presentation of financial statements.

FINANCE LEASE

A lease that transfers substantially, all of the risks and rewards of ownership of a non-current asset to the lessee. Such a transfer of risks and reward may be presumed to occur if:

- at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.
- The Council will hold the asset for substantially all of its useful life
- There will be little residual value in the asset at the end of the lease term.

GENERAL FUND

The main revenue account of the Council, which summarises the cost of all services provided by the Council which are paid for from government grants, non-domestic (business) rates contributions, council tax and other income.

GOVERNMENT GRANTS

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

IMPAIRMENT

A reduction in the value of an asset below its carrying amount on the statement caused by a specific event or reason.

INCOME

Amounts which the Council receives or expects to receive from any source, including fees, charges, sales and grants.

INTANGIBLE ASSETS

Expenditure which may properly be capitalised, but which does not result in an asset with substance. Examples of this type of expenditure are software and other licences, patents and trademarks and artistic originals.

INFRASTRUCTURE ASSETS

Non-current assets that are non-transferable, expenditure on which is only recoverable by continued use of the asset created. Examples are highways and footpaths.

INTERNATIONAL ACCOUNTING STANDARDS (IAS)

These standards are developed by the International Accounting Standards Board and regulate the preparation and presentation of financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

These standards are developed by the International Accounting Standards Board and regulate the preparation and presentation of financial statements. The Companies Act 1985 requires compliance to these Standards or disclosures in the notes if there are any material departures from those Standards.

INVENTORIES

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Inventories comprise the following categories:

(a) goods or other assets purchased for resale;

(b) consumable stores;

(c) raw materials and components purchased for incorporation into products for sale;

(d) products and services in intermediate stages of completion;

(e) long-term contract balances, and

(f) finished goods.

INVESTMENT PROPERTIES

Properties that are held by the Council for the purpose of generating income, whether through:

- Rental income
- Capital appreciation, or where an asset is declared surplus but is not yet marketed for sale.

INVESTMENTS

A long term investment is one that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the Investment. Investments which do not meet the above criteria should be classified as current assets.

INVESTMENTS (PENSION FUND)

The investments of the pension fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

LANDFILL ALLOWANCE TRADING SCHEME (LATS)

A scheme operated by the Department for Food and Rural Affairs to encourage local authorities to increase recycling levels. Local Authorities are allocated allowances to cover their landfill requirements. Councils who exceed their amount of allowances allocated have to pay a fine or trade with other councils who have surplus allowances.

LEASING

A method of financing capital expenditure where a rental charge is paid for the asset over a specified period of time.

LIABILITY

A liability is where the Council owes payment to an individual or another organisation. Liabilities are usually classed as contingent or current.

- A **contingent liability** is a potential liability at the Balance Sheet date which arises as the result of a condition which exists where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events. The financial liability is included in the Balance Sheet where it can be reasonably estimated. Where the contingency is material but a financial estimate cannot be made, the existence of the liability is disclosed as a note to the accounts.

- A **current liability** is an amount which will become payable or could be called in within the next accounting period e.g. creditors or cash overdrawn.

LIQUID RESOURCES

Current asset investments that are readily disposable by the Council without disrupting its business and are either:

- readily convertible to known amounts of cash at or close to the carrying amount; or

- traded in an active market.

LOCAL MANAGEMENT OF SCHOOLS

This refers to the statutory delegation of management and budget responsibility to individual schools. Individual schools spending is not included in the Income and Expenditure Account. Surpluses or deficits are carried forward into the next financial year.

LOANS OUTSTANDING

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the Balance Sheet date.

LONG TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

MATERIALITY

The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements.

MEDIUM TERM FINANCIAL PLAN

A five year forward assessment of the Council's expenditure plan for both revenue and capital expenditure. This is produced as part of the Council's annual budget process.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

MODIFIED

When contractual terms relating to a financial instrument have been changed but not to the degree required to extinguish the asset or liability involved.

MOVEMENT IN RESERVES STATEMENT

This statement shows movement in the year on the different reserves held by the Council analysed into 'usable reserves' and 'unusable reserves'.

NATIONAL NON-DOMESTIC RATES (NNDR)

The business rate in the pound is the same for all non-domestic ratepayers and is set annually by Central Government on the assessed value of properties used for business purposes.

Income from business rates goes into a central government pool that is then distributed to councils according to resident population.

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET DEBT

The Council's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be made to net funds rather than net debt.

NET REALISABLE VALUE

The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON–CURRENT ASSET

Assets that yield benefits to the Council, and the services it provides, for a period of more than one year.

NON-DISTRIBUTED COSTS

These are overheads for which no user of the Council benefits and should not be apportioned to services.

OPERATING LEASE

A lease other than a finance lease.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

PENSIONS INTEREST COST

For a defined benefit scheme the expected increase during the period in the present value of the scheme liabilities because the benefits are one year closer to settlement.

PRECEPT

The levy made on billing authorities by other bodies requiring them to collect income from Council taxpayers on their behalf, e.g. Parish Councils, Police and Fire Authorities.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PRIVATE FINANCE INITIATIVE

A partnership arrangement whereby a private sector provider provides purpose built buildings/equipment etc. for long term rental by public sector users.

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and

(b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

PROVISION

Funds set aside to cover potential liabilities or losses which are likely or certain to be incurred at a future date but where the exact amount and timing of the liability or loss is currently not known.

PRUDENCE

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

PUBLIC WORKS LOAN BOARD (PWLB)

A government agency which lends money to public bodies for capital purposes.

RATEABLE VALUE

The annual assumed rental of a hereditament (property) which is used for NDR purposes.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

(i) one party has direct or indirect control of the other party; or
(ii) the parties are subject to common control from the same source; or
(iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
(iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated to its own separate interests.

Examples of related parties of a Council include:

(i) Central Government,
(ii) Local Authorities and other bodies precepting or levying demands on the council tax,
(iii) its subsidiary and associated companies,
(iv) its joint ventures and joint venture partners,
(v) its Members,
(vi) its Chief Officers and
(vii) its Pension Fund.

The above examples are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties;

(i) members of the close family, or the same household; and
(ii) partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

RELATED PARTY TRANSACTIONS

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

(i) the purchase, sale, lease, rental or hire of assets between related parties;
(ii) the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the Pension Fund;
(iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
(iv) the provision of services to a related party, including the provision of Pension Fund administration services;

(v) transactions with individuals who are related parties of a Council or a Pension Fund, except those applicable to other members of the community or the Pension Fund, such as council tax, rents and payments of benefits.

The above examples are not intended to be comprehensive. The materiality of related party transactions should be judged not only in terms of their significance to the Council, but also in relation to its related party.

RESERVES

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the Revaluation Reserve cannot be used to meet current expenditure.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

(a) an employer’s decision to terminate an employee’s employment before the normal retirement date, or

(b) an employee’s decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

REVALUATION RESERVE

The revaluation reserve was introduced as part of the changes included within the 2006 SORP. The purpose of the reserve is to record the gains on revaluation of fixed assets that have not been realised through the disposal of the asset. The balance on the reserve represents the revaluation gains accumulated since 1 April 2007.

REVENUE EXPENDITURE

The day-to-day expenses of providing services. This comprises staff costs, other operating costs and capital charges.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Revenue expenditure funded by capital under statute. This is expenditure that can be properly capitalised, but which does not result in an asset for the Council. Expenditure is therefore written off to revenue.

REVENUE SUPPORT GRANT (RSG)

A general Central Government grant paid to the Income and Expenditure Account in support of the Council's revenue expenditure.

SCHEME LIABILITIES

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

SETTLEMENT

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

(a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;

(b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits and

(c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

SPECIFIC GRANTS

Government grants given to local authorities and earmarked for specific services, e.g. Standards Fund Grant paid to Education Services.

SUPPORT SERVICES

The costs of directorates which provide professional and administrative assistance to services.

TRUST FUNDS

Funds administered by the Council for such purposes as prizes, charities, specific projects, and on behalf of minors.

USEFUL LIFE

The period over which the Council will derive benefits from the use of a fixed asset.

WORK IN PROGRESS

The value of work done on an uncompleted project which has not been recharged to the appropriate account at the Balance Sheet date.